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To be argued by
MICHAEL W. SCHWARTZ

United States Court of Appeals
FOR THE SECOND CIRCUIT

UNIVERSAL CITY STUDIOS, INC.,
*Plaintiff-Appellant,
Cross-Appellee,*

—against—

NINTENDO CO., LTD. and NINTENDO OF AMERICA, INC.,
*Defendants-Appellees,
Cross-Appellants.*

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

OPENING BRIEF OF
UNIVERSAL CITY STUDIOS, INC.

WACHTELL, LIPTON, ROSEN
& KATZ
299 Park Avenue
New York, New York 10171
(212) 371-9200

MICHAEL W. SCHWARTZ
DAVID GRUENSTEIN
Of Counsel

*Attorneys for Appellant-
Cross-Appellee Universal
City Studios, Inc.*

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ISSUES PRESENTED FOR REVIEW

1. Whether the District Court erred in ruling that a declaratory judgment of the United States District Court for the Central District of California in favor of Universal's predecessor-in-interest was an invalid "assignment in gross" which did not successfully transfer trademark rights in King Kong.

2. Whether the District Court erred in ruling that Nintendo had suffered tortious interference with contract, entitling it to \$94,219.41 in compensatory damages, based upon Universal's assertion of trademark rights in King Kong.

3. Whether the District Court erred in ruling that Nintendo was entitled to \$1,365,043.98 in exemplary damages and/or Rule 11/Lanham Act attorneys' fees based on Universal's assertion of trademark rights in King Kong.

4. Whether the District Court erred in ruling that Universal was guilty of vicarious copyright infringement in licensing a third party to market King Kong video games, entitling Nintendo to Universal's profits, and in ruling that Nintendo was entitled to \$83,525.05 in copyright attorneys' fees with respect thereto.

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Preliminary Statement

This brief is respectfully submitted on behalf of Universal City Studios, Inc., plaintiff-counterclaim defendant-appellant-cross appellee ("Universal"). Universal appeals from portions of a judgment entered by the United States District Court for the Southern District of New York, Sweet, D.J. The judgment was entered on October 2, 1985, after a bench trial of five counterclaims asserted by defendants-counterclaimants-appellees-cross appellants Nintendo Co., Ltd. and Nintendo of America, Inc. ("Nintendo"). The judgment dismissed all the counterclaims but two, one claim of tortious interference with contract, and a claim of contributory copyright infringement. (A60)*

* References to "A____" are to the Joint Appendix herein.

The District Court should have dismissed these two counter-claims, as it did the others. Its failure to do so was based on clear errors of law. The District Court compounded its error by awarding Nintendo \$1,365,043.98 as punitive damages and/or attorneys' fees on the state law claim, and \$83,525.05 in copyright attorneys' fees. These awards were independently erroneous.

The decision below is reported at 615 F. Supp. 838 (S.D.N.Y. 1985) (the "1985 Decision"). The 1985 Decision expressly "adopted and incorporated" (615 F. Supp. at 842) the Court's earlier 1983 decision (the "1983 Decision"), which granted Nintendo summary judgment on Universal's main complaint. The complaint had alleged that a video game called "Donkey Kong," which Nintendo marketed and licensed, infringed Universal's trademark rights in the name, character, story and visual image of King Kong, in violation of the Lanham Act and New York law. The 1983 Decision rested on three grounds: that Universal's predecessor-in-interest owned no trademark rights, that King Kong lacked "secondary meaning" as a matter of law, and that there was no "likelihood of confusion" between King Kong and "Donkey Kong." The 1983 Decision is reported at 578 F. Supp. 911 (S.D.N.Y. 1983), *aff'd on Rule 54(b) appeal*, 746 F.2d 112 (2d Cir. 1984).

On the prior appeal, this Court reached only the "likelihood of confusion" issue. This Court stated that "we need not and do not decide if the district court was correct in finding that the King Kong mark was not validly developed and conveyed to Universal and that the King Kong mark has not acquired secondary meaning." 746 F.2d at 115.

Review of these other two issues is necessary now. The 1983 rulings that Universal had no trademark rights as a matter of law, still unreviewed by this Court, underlay the 1985 ruling that Universal's assertion of such rights constituted tortious interference with certain of Nintendo's licensing contracts. The lower court's 1985 ruling and awards were *not* predicated in

any way on the "likelihood of confusion" issue decided on the prior appeal.

The court's theory of Universal's tort liability, and its award of attorneys' fees, imputed misconduct to Universal's trial counsel, the firm of Townley & Updike. Because it was deemed inappropriate to put Townley & Updike in the position of arguing the propriety of its own conduct, Universal's present counsel was retained shortly after the 1985 Decision was rendered.

Universal then moved below for a partial new trial of the tortious interference claim and of the attorneys' fee/punitive damage award. That motion was denied in an unreported opinion dated December 24, 1985 (A64), and Universal also appeals from that denial.

After Universal noticed its appeal, Nintendo noticed a cross-appeal. That cross-appeal encompasses the District Court's dismissal of (1) its counterclaims for other alleged tortious interference with contract—which involve many of the same legal issues as the counterclaim sustained below—and (2) a separate claim for "misappropriation/unjust enrichment." Nintendo did not cross-appeal from the dismissal of its counterclaim for tortious interference with prospective economic advantage.

Summary of Argument

Three fundamental and pervasive errors were committed below.

First, in its 1983 Decision, the court wrongfully stripped Universal of valuable trademark rights in King Kong, which it had bought and paid for. It reached this result by failing to give effect to a prior declaratory judgment (the "Cooper Judgment") of the United States District Court for the Central District of California (the "California Federal Court") in favor of Universal's predecessor-in-interest, Major Richard Cooper ("Cooper" or "Major Cooper"). The Cooper Judgment was based on a determination that RKO Radio Pictures, Inc.

("RKO") had been guilty of serious commercial misconduct against Cooper and his deceased father, the original creator of King Kong. Finding that RKO had been guilty of misappropriating the Coopers' rights, the Cooper Judgment sweepingly declared that Cooper owned "all rights" in King Kong (other than RKO's derivative copyright rights in its movies). Universal justifiably relied on the validity of the Cooper Judgment in paying Major Cooper \$200,000 to purchase his rights thereunder.

The 1983 Decision held in substance that the California Federal Court did not know what it was doing. It ruled that the Cooper Judgment was an invalid "assignment in gross." This was clear error. The Judgment was not a transfer or assignment at all: it was a judicial declaration of rights and order of restitution against an adjudicated corporate wrongdoer, RKO. Moreover, the Judgment did not fail to "transfer" any "good will": it declared that *all* exploitations of King Kong "at any time"—including the right to control future King Kong movies and the right to merchandise King Kong products—were Cooper's property. It declared that these rights are "exclusively vested in and solely owned by Richard Cooper."

The court below erroneously treated a judgment intended to *protect* valuable rights, which had been wrongfully misappropriated, as a device which unwittingly *destroyed* those rights and facilitated the activities of other misappropriators. By failing to give the Cooper Judgment its intended effect, and instead giving it a diametrically opposite effect, the court committed clear error.

Second, the court found in 1985 that Universal supposedly "knew" that it "didn't have any rights in King Kong to license" and accordingly that it was guilty of "tortious interference with contract" in asserting its trademark rights in King Kong. The acts held to be "tortious" were (a) bringing suit against Nintendo under the Lanham Act and New York law and (b) sending a demand letter to certain of Nintendo's licensees informing them of this lawsuit and threatening suit against them. As will be shown, neither New York law nor general common law principles remotely justify the decision that

Universal's conduct was tortious at all—much less conduct manifesting “a criminal indifference to civil obligations,” as would be required to justify the \$1,365,043.98 punitive damage award.

The lower court also awarded as Rule 11 attorneys' fees—for Nintendo's expenses in defending Universal's Lanham Act complaint—the same amount it awarded as punitive damages. This award was contrary to the Rule and to prior decisions of this Court. The complaint was filed in June, 1982. Rule 11 in its then applicable form—prior to the 1983 amendments—applied only where a lawyer signed a complaint in subjective bad faith. There was absolutely no finding that Townley & Updike was guilty of *any* misconduct, much less subjective bad faith. There could not have been. The firm's conduct was impeccably professional.

Section 1117 of the Lanham Act, which permits “reasonable” fee awards in “exceptional” cases, and which the Court cited as an alternative basis for its award, is equally inapplicable. Universal asserted Lanham Act claims on the advice of its long-term outside litigation counsel, the very lawyer who had represented it in the earlier litigation which produced the Cooper Judgment. It is incomprehensible that Universal can be criticized—much less forced to pay Nintendo's defense costs—for asserting trademark rights on that counsel's advice.*

The court's patently erroneous findings that Universal “knew” it had “no” rights rested solely on deposition testimony of a single witness, one Loretta Sifuentes, a former staff lawyer in Universal's merchandising affiliate. By her own admission, she had had nothing to do with the earlier litigation that led to the Cooper Judgment, and had never even read the Cooper papers because they were “too long.”

* As explained below, the regular litigation counsel who advised Universal on its rights was a partner in the Los Angeles firm of Rosenfeld, Meyer & Susman. Since the Rosenfeld firm has no office in New York, Townley & Updike was retained to handle this New York-based case. It was a partner of Townley & Updike who signed the complaint on which the attorneys' fee award below was premised. Thus not one outside lawyer, but two, confirmed Universal's right to bring suit: regular counsel in its advice to Universal, and Townley & Updike in its Rule 11 certification to the Court.

Moreover, neither Universal's supposed "knowledge" that it had "no" rights, nor its supposed "decision" to stop licensing, was reflected in a single document; and every other witness, including not only Universal's employees but independent third parties, failed to corroborate her deposition testimony or specifically contradicted it, including a witness whom the District Court saw and heard at trial, and specifically found "credible" and "consistent." Yet the court erroneously held that only her deposition itself "is available to test Sifuentes' credibility."

Third, apparently unable to accept its own ruling that Universal had "no" rights, and "knew" it had "no" rights, the court also held that Universal's assertion of rights was "overbroad," because it claimed trademark rights in a "visual image" of King Kong. Apart from the fact that these "overbreadth" holdings show that the court did not really believe that Universal had "no" rights, they are wrong as a matter of law.

The Cooper Judgment gave Cooper "all rights" which RKO had exercised "at any time" (other than RKO's movie copyrights). It would be hard to conceive of a "broader" source of rights. There is not a word in the Cooper Judgment to suggest that it prevented use of a "visual image" in trademark licensing—much less that the derivative copyright rights of RKO, the misappropriator, frustrated the Judgment's basic purpose of confirming title to valuable property rights in their rightful owner, Cooper.

Moreover, it is not the law of New York, or any other jurisdiction, that a tort is committed, entitling someone to more than a million dollars in punitive damages and attorneys' fees, when an "overbroad" complaint is filed. It was fundamental error to condemn Universal and its lawyers on the basis of such a gossamer concept.

The ruling below is unjust to the particular lawyers and clients in this case, who relied in good faith on the clear meaning of the prior Cooper Judgment. They had no possible reason to anticipate that another federal court would later hold

that that Judgment was not "successful," much less that, if they failed to anticipate such a holding, they would be held guilty of professional misconduct, and would subject their client to punitive damages.

The decision below is also antithetical to our litigation system. Lawyers are entitled to frame a pleading as their best professional judgment dictates without fear that they and their clients face liability for massive punitive damages and attorneys' fees—not to mention serious reputational harm—if a court later decides that the complaint was "overbroad."

The decision below to the contrary should be reversed.

Statement of the Case

A. The Cooper Judgment.

The genesis of this litigation lies in the Cooper Judgment entered on December 21, 1976, by the California Federal Court. That Judgment resolved a long-standing controversy over the ownership of King Kong between Major Cooper—the son of Merian C. Cooper, who originally created King Kong—and RKO, producer of the 1933 movie under a license from the senior Cooper. (A844)

The Cooper/RKO litigation began as a cross-action, under Cooper's cross-complaint, after Universal had sued RKO, Cooper and Dino DiLaurentiis Corp. ("DiLaurentiis") over the right to produce a new King Kong movie. While Universal's movie remake litigation was ultimately settled, *see* p. 9, *infra*, the Cooper/RKO cross-action was resolved by the Cooper Judgment. (A73-80, 324-26, 327-31)

Major Cooper's cross-complaint sought a declaration that he, not RKO, owned the entire King Kong property. Cooper contended that he, not RKO, owned "all rights in and to the said story, character and the name King Kong" other than the right his father had licensed to RKO in 1932 to make a "King Kong" motion picture.* Cooper contended that the license

* Under a subsequent license, Merian Cooper had also permitted RKO to make a little-known sequel called "Son of King Kong." (A845)

agreement between his father and RKO had not authorized RKO to "use or license Merian C. Cooper's story, character or name for merchandising purposes." Cooper contended that "RKO has appropriated, traded upon and profited from the story, character and name created by Merian C. Cooper in connection with the licensing of rights [*inter alia*] to manufacture and sell toys, models and other commercial products embodying Merian C. Cooper's story, character and the name 'King Kong'." RKO disputed all this, contending that King Kong was a "work for hire" created while Cooper was under contract to it, and accordingly that neither the senior Cooper nor his heirs had any rights in King Kong. (A819, 314, 684)

The Cooper Judgment upheld Major Cooper's contentions. It declared that his father, and he as successor, had at all times owned all rights in King Kong, except RKO's right to make one motion picture (and one sequel) under license. It held that that license gave RKO no other rights. In substance, it held that RKO had been guilty of misappropriating the Coopers' retained rights. It was accompanied by detailed findings of fact and conclusions of law. (A844, 848, 872)

Of particular relevance here is that the Cooper/RKO litigation, and the Judgment which resolved it in Cooper's favor, specifically dealt with the aspect of King Kong rights involved in the present case—the merchandising of "toys, . . . and other commercial products" embodying the King Kong character, story and name. RKO had, for many years, "traded upon and profited from" the King Kong name and character in extensive merchandising activities under the King Kong trademark. The California Federal Court concluded that these activities too constituted a misappropriation of the Coopers' rights. (A829, 1329, 1353, 309-11, 699)

The Cooper Judgment declared that RKO was a "constructive trustee of all of the rights in and to the character, name and story 'King Kong' to the extent they have been exercised by it at any time," and that "Richard Cooper is the sole beneficiary of said trust." Paragraph 6 of the Judgment directed RKO to assign to Cooper all of the then outstanding merchandising licenses for King Kong products, which

included action toys, articulated figures, paper posters and other products. (A878, 880-81)

It is this sweeping declaratory judgment that the District Court held "did not successfully transfer RKO's trademark rights to Cooper" because it did not "transfer" to Cooper "any other aspect of RKO's business." The District Court accepted Nintendo's reading of the Cooper Judgment as "a quintessential transfer in gross—a transfer of a trademark without any other aspect of RKO's business." 578 F. Supp. at 923. The District Court did *not* find that there was any defect in the subsequent transaction by which Universal succeeded to Cooper's rights.*

B. The Universal/RKO Settlement Agreement.

By agreement dated June 4, 1980, the litigation between Universal and RKO was settled. The Universal/RKO settlement agreement, like the litigation it ended, dealt with Universal's plans to produce a new King Kong movie, and its claim that RKO's licensing of DiLaurentiis' remake—which in the meantime had been successfully released—was improper. (A883, 78-79)**

One provision of the Universal/RKO settlement agreement has particular pertinence to the present case. Paragraph 6, while reserving RKO's copyright right to distribute its movies, in substance ceded to Universal RKO's statutory right to

* Universal paid Cooper \$200,000 outright, and agreed to pay various additional contingent compensation, to purchase his rights under the Judgment (with one exception described at pp. 10-11, *infra*). (A835)

** The settlement was reached while Universal and RKO were in the Court of Appeals for the Ninth Circuit, where RKO was seeking reversal of both the Cooper Judgment and the District Court's judgment sustaining Universal's claims in its movie remake litigation and dismissing RKO's counterclaims against Universal (the "Universal Judgment"). By order dated October 8, 1980, the Court of Appeals vacated both of the lower court's judgments when advised of the settlement; on January 5, 1981, on remand, the California Court reinstated the Cooper Judgment, incorporating a special master's award of damages. It never reinstated the Universal Judgment. (A872, 908)

control "copying" of its film except for "verbatim" copies—*i.e.*, copies from the film itself. This provision of the Universal/RKO agreement is pertinent in light of the repeated statements in the 1985 Decision that, because of RKO's rights, Universal's claim of trademark rights in the "visual image" of King Kong was unjustified and/or "over-broad." (A888)

As more fully explained below, these criticisms were unwarranted, given the language and purpose of the Cooper Judgment. But over and above that Judgment, paragraph 6 of the RKO settlement agreement expressly gave Universal "visual image" rights so long as it refrained from "verbatim" copying. (A888, 78-79) The court below never referred to this provision in either the 1983 or 1985 Decision.

C. The Cooper/Universal Purchase Agreement.

As noted above, Universal purchased Major Cooper's rights under the Cooper Judgment for \$200,000, by agreement dated December 15, 1976. Major Cooper, a career Army officer represented in the California litigation by counsel appointed under the Soldiers and Sailors Civil Relief Act, was in no position to exploit the broad rights which the Cooper Judgment recognized. Universal—a major movie studio, and a wholly-owned subsidiary of MCA, Inc. ("MCA"), a major company in the entertainment industry—was. (A79-80, 321-23, 352-53)

As also noted above, the District Court found no defect in Major Cooper's conveyance of his rights to Universal. Its determination that "RKO's trademark rights" were not successfully "transferred" to Cooper rested solely upon its conclusion that the Cooper Judgment was defective.

However, the District Court's decision that King Kong lacks "secondary meaning" as a matter of law rested in part on a term of the Cooper/Universal agreement. In that agreement, Cooper reserved to himself the "[w]orld-wide publishing rights" (A836); and the District Court relied in part on that reservation in its conclusion that the King Kong rights had been impermissibly "split up," depriving the mark of secondary meaning. 578 F. Supp. at 924.

Yet the undisputed record showed that Major Cooper's father had reserved the publishing rights in his original 1932 license to RKO. (A314, 698) Thus the Cooper/Universal agreement left publishing rights exactly where they had always been. Moreover, Nintendo made no showing that Cooper's publishing rights had any impact on the trademark licensing involved in this case. Nintendo did not even try to show that public perceptions of King Kong had been affected by Cooper's reservation of publishing rights, or indeed that Cooper ever exercised those rights.*

D. Universal's King Kong Marketing Efforts.

Universal undertook to protect and exploit the merchandising and trademark rights it acquired under the Cooper Judgment promptly after RKO's existing licenses ran out toward the end of 1979. It directed letters to RKO, DiLaurentiis, and their merchandising licensee, Paramount Pictures Corp., advising them of its intention to merchandise King Kong, and directing them to refrain from issuing or extending any merchandising licenses. It did so on the advice of its regular litigation counsel, Stephen Kroft ("Kroft"), of the Los Angeles firm of Rosenfeld, Meyer & Susman (the "Rosenfeld firm"). The Rosenfeld firm has served as outside general counsel to MCA for more than 25 years. Kroft himself had represented Universal throughout the California Court litigation which gave rise to the Cooper Judgment. (A1084-86, 1089-95, 1164-78, 81-86, 137-38, 209-10, 230, 236-38, 372-76)

The direction to begin licensing came from Sidney Sheinberg, Universal's (and MCA's) president and chief operating officer. As the District Court found, Sheinberg had taken an intense personal interest in the California King Kong litigation. 615 F. Supp. at 844. Indeed, the litigation had been provoked

* Nintendo did attempt to show that certain potential trademark licensees of King Kong were not sure as between Universal and RKO who had the merchandising rights, but it made no such claim as between Universal and Major Cooper. RKO's witness testified that RKO referred such merchandising inquiries as it received to Universal. DiLaurentiis did likewise. (A315-17, 1307)

by his belief that RKO violated a prior contract with Universal when it licensed the DiLaurentis movie. Sheinberg directed the head of Universal's merchandising division, Merchandising Corporation of America, Inc. ("Merchandising" or "MCA Merchandising"), which generally licenses and markets the trademarks of Universal, to license King Kong. (A623-24, 626-29, 1088-99, 1106-07, 487, 324-30) 615 F. Supp. at 844.

MCA Merchandising was run by one Steven Adler. It also employed a lawyer named Loretta Sifuentes.* Notwithstanding Sheinberg's keen interest in King Kong, Adler and Sifuentes made no special efforts to merchandise it. Nonetheless, each of the King Kong licenses they did issue warranted that Universal had the right to authorize the uses in question, and required the licensee to affix a trademark notice to its product in the name of Universal. (A344, 634-37, 640, 645, 649-50, 1038-64)**

At this time, video games marketed to teenagers and younger children were one of the most lucrative areas of trademark licensing. In September, 1981, MCA Merchandising licensed Tiger Electronics Toys, Inc. ("Tiger") to produce and market King Kong video games. The Tiger license warranted that MCA Merchandising had the right to authorize such a use, and required Tiger to affix a trademark notice in Universal's name to the game. (A243-44, 344-45, 1041, 630-33, 641)

In what was later recognized as a major commercial blunder, Adler and Sifuentes gave Tiger the exclusive right to produce any King Kong video game for a mere \$15,000 guarantee. Moreover, Adler failed to advise Sheinberg of the Tiger license. To the contrary, he erroneously told Sheinberg that there were

* The 1985 Decision mistakenly identifies her as "Laura" Sifuentes. 615 F. Supp. at 844.

** The 1985 Decision never mentioned this undisputed fact, although it clearly establishes that, by its conduct, Universal as a corporate entity was affirmatively claiming the trademark rights recognized in the Cooper Judgment. The District Court's various statements that Universal "knew" it had no trademark rights were, instead, based solely on its acceptance of unsupported deposition testimony by Sifuentes to this effect. The acceptance of this testimony was clearly erroneous (*see pp. 38-42, infra*).

no King Kong licenses outstanding. (A170-71, 219-21, 207-08, 1041, 224)

When their errors came to light, Adler and Sifuentes were severely reprimanded. (A176-77, 207-08, 220-23) Under circumstances described below, a senior Universal/MCA executive was ultimately successful in renegotiating the Tiger license.

In early 1982, Adler and Sifuentes learned of Nintendo's "Donkey Kong" game. Although they were unquestionably aware of Sheinberg's special interest in King Kong, they failed to bring "Donkey Kong" to his attention or that of other senior executives. (A487, 750, 775-81, 652-54)*

Sifuentes was later to claim, on deposition in this case, that shortly thereafter she and Joseph V. DiMuro, the retired former head of Universal's law department, who worked on a *per diem* consulting basis, decided that Universal "didn't have any rights to license" and should cease licensing King Kong. She further testified that MCA Merchandising did thereupon delete King Kong from a list of properties to be licensed. (A71-72, 795-98)

DiMuro, who testified at trial below and whom the District Court described as "a credible, consistent witness in the large," 615 F. Supp. at 846, categorically denied the conversation and the decision to cease licensing. He pointed out, *inter alia*, that neither Sifuentes nor he had any power to make such a decision, that at a minimum it would have involved consultation with MCA's general counsel and a senior executive officer of the accounting department, that it would have resulted in a writing of some sort, and that the writing would have been

* Sifuentes consistently failed to treat King Kong matters seriously. For example, although she conducted a King Kong trademark search when MCA Merchandising licensed Tiger, and although the search revealed seven arguably infringing registrations, she neither took any action nor reported the search results to senior executives. Neither did Adler. Sifuentes was ultimately fired by MCA (for reasons unrelated to King Kong). Adler left shortly thereafter. Sifuentes was employed by Adler in his new business at the time of her deposition. (A132-33, 251, 751-55, 790-92, 651, 202-03, 784-85, 638-39, 646-48, 748-49, 205-06)

disseminated throughout the company. Moreover, "[b]ecause of Mr. Sheinberg's ongoing interest in King Kong, going back to 1975, it would certainly have involved Mr. Sheinberg." (A94-95)

None of this happened. As the District Court found, "[t]here was *no* affirmative action taken after the [Sifuentes-DiMuro] meeting; no document was prepared in connection with the conversation or subsequent to it." 615 F. Supp. at 846 (emphasis added). Nonetheless, the District Court erroneously credited Sifuentes' testimony, "which regrettably is all that is available to test her credibility." *Id.*

E. Universal's Other King Kong Activities.

At this time, Universal was also pursuing preproduction of another "King Kong" movie, which the Cooper Judgment and the RKO agreement permitted Universal to make. Release of such a picture could vastly enhance the value of the King Kong trademark rights Universal owned under the Cooper Judgment, as its own recent experience with "E.T." and "Jaws", and DiLaurentiis' experience with his 1976 "King Kong," demonstrated. (A332-33, 1307)*

The uncontradicted record showed that Sheinberg and Universal employees generally were extremely careful in planning the new film to respect the copyrights of RKO and DiLaurentiis in their two earlier movies. See 615 F. Supp. at 851. DiMuro in particular consistently took what the District Court

* In this period, the kind of trademark licensing at issue here—exploitation of the popularity of a film or cartoon character—reached new heights of success. MCA itself earned millions of dollars in merchandising revenues from trademark licenses exploiting the popularity of the "E.T." name and story and of the name and story of "Jaws" and its sequels. A118-121; *see also* A1324.

Universal's "King Kong" movie project was later shelved—long after this action had been brought—when the producer, Jennings Lang, was incapacitated and deprived of his speech by a serious heart attack. This happened after Universal had spent hundreds of thousands of dollars on a script. (A98-100, 335-36, 730-32, 733-43, 745-46)

called a "conservative approach" and gave "conservative . . . advice" where RKO's copyright rights were concerned, 615 F. Supp. at 846, notwithstanding the broad scope of the Cooper Judgment and the fact that the RKO/Universal agreement left RKO only the right to prevent "verbatim" copying. For example, DiMuro advised Sheinberg, by memo, that Universal could avoid copyright difficulties if it did not model its movie ape on the "visual image" of the RKO movie ape. DiMuro's memo noted that RKO "owns . . . the visual representation of the King Kong ape." (A333-34, 96-97, 611)

The DiMuro memo does not refer to Universal's merchandising activities or trademark matters. On its face, it is clearly giving copyright advice (and advice with respect to Universal's rights under the RKO agreement) concerning the timing of the proposed new movie. It does not mention either merchandising or trademarks, does not mention the Cooper Judgment—and, it should be noted, does not mention DiMuro and Sifuentes' alleged "decision," just a few months earlier, to cease all licensing. DiMuro was frank to admit that, while he is "versed in entertainment law, . . . basically copyrights," "I don't hold myself out as a trademark expert." (A97-100, 107-17, 336-39, 354-55, 357-60, 116, 134-35)

Nor were the Cooper Judgment, or trademark matters, addressed in another internal memo reflecting DiMuro's advice, concerning Universal's plans to install a King Kong exhibit at its "Universal City Studio Tours" theme park. (A610) As DiMuro testified at trial:

It's a matter of copyright. Universal should not be in a position of copying the RKO gorilla or the DiLaurentiis gorilla to the point that it would be substantially similar and, therefore, objectionable. Although, as I have testified before, the June 4, 1980 [RKO settlement] agreement gave us that leeway. I want to emphasize that.

—A97.

The District Court erroneously read DiMuro's copyright memos as establishing that "Universal" supposedly "knew" that it had "no rights" to use any "visual image" of King

Kong in trademark licensing, and therefore "had no identifiable trademark." 615 F. Supp. at 862.*

F. Universal's Assertion of Trademark Rights Against Nintendo and Its Licensees.

1. Universal Receives Kroft's Advice.

When Sheinberg learned of "Donkey Kong," he instructed an MCA lawyer, Robert Hadl, to look into it and determine whether it violated rights of Universal. Hadl, who was not familiar with the California King Kong litigation and had not worked on it "at all," consulted Kroft of the Rosenfeld firm. Kroft had not only represented Universal throughout the King Kong litigation in the California Federal Court, but had negotiated the Cooper/Universal agreement and the RKO/Universal agreement, including its provision limiting RKO's copyright rights. The record was undisputed that Kroft was an experienced litigator in intellectual property matters. (A154-61, 209-13, 142-43, 1085-90, 1109)**

* Where trademark licensing was concerned, DiMuro's position *vis-a-vis* RKO was that the only limitation under the Cooper Judgment was on the use of actual copyrighted stills, not some general "visual images" limitation. A89; *see also* A124-36. Indeed, RKO's counsel testified that he understood DiMuro's view to be that Universal *could* use stills. (A681-82)

Moreover, whatever DiMuro and RKO's counsel thought, at Sifuentes' level, her experience was that while RKO employees were not particularly cooperative, Universal's licensees could use whatever materials from the RKO movie Sifuentes could get. (A788-89) The testimony of RKO's counsel is also clear that Universal's use of copyrighted stills was of no great moment to RKO. (A683,695) When asked whether litigation had ever been threatened over the issue, his surprised response reflected that the thought had never even occurred to him: "Oh, no." (A683) Indeed, RKO gave Universal an assignment of cause of action to bring this very case, *see* p. 23, *infra*.

** One of the cases Kroft had handled for Universal was the famous "Betamax" litigation challenging the legality of home video recorders under the copyright laws. While Kroft prevailed on Universal's claims in the Court of Appeals for the Ninth Circuit, *Universal City Studios, Inc. v. Sony Corp.*

Kroft advised Hadl that he believed Universal could properly assert trademark rights against "Donkey Kong" and was "on firm ground to bring this complaint and this action." Hadl asked Kroft to prepare a "demand" telex to Nintendo and a draft trademark complaint. (A 160-61, 204)*

After receiving Kroft's advice, but before commencing suit, Universal sought to settle its claims with Nintendo and its "Donkey Kong" licensees. It was largely successful.

2. Universal Settles with Coleco.

The first "Donkey Kong" licensee to settle with Universal was Coleco Industries, Inc. ("Coleco"). Sheinberg learned of Coleco's plans to market "Donkey Kong" at a luncheon meeting in late April, 1982, between himself and Arnold Greenberg, chief executive officer of Coleco, on other matters.**

During the luncheon, Greenberg mentioned that Coleco would be marketing "Donkey Kong" as part of its new ColecoVision home video system. Sheinberg instantly objected that "Donkey Kong" infringed on King Kong. He stated that there could be no further consideration of an MCA/Coleco transaction until the "Donkey Kong"/King Kong situation was

of America, 659 F.2d 963 (9th Cir. 1981), a sharply divided Supreme Court, after hearing argument twice, ultimately reversed by a 5-4 vote. *Sony Corp. of America v. Universal City Studios, Inc.*, 104 S. Ct. 774 (1984).

* On Kroft's advice, Universal never asserted any copyright claim. (A1099-1101, 1184, 1257-95, 21)

** For a number of months, Universal and Coleco had been discussing a broad relationship whereby Coleco would license characters from Universal's film library for use in video games. As Greenberg testified, the purpose of the April luncheon meeting was not only to pursue this licensing idea but to discuss the possibility that Universal might also want to make a major investment in Coleco. (A659-60, 801-02, 179, 244, 344-45, 356-58, 661, 663, 666, 709)

resolved. Greenberg indicated a willingness to do so. (A345-48, 350-51)*

At Sheinberg's direction, Hadl had a copy of Universal's "demand" telex sent to Coleco as well as Nintendo. The telex, as drafted by Kroft and sent out by Universal, specifically referred to Universal's agreement with Major Cooper as the source of its King Kong rights. (A163-66, 424)**

Coleco, which at all times was represented by experienced trademark counsel, the Kaye Scholer firm of New York, came to a negotiated agreement with Universal. It did so after Nintendo refused its request for an indemnity against Universal's claims. It agreed, in return for Universal's covenant not to sue, to pay Universal three percent of its gross wholesale sales of the home video game and other "Donkey Kong" products licensed by Nintendo (a much lower figure than Universal had initially sought). Universal also agreed to indemnify and hold Coleco harmless for any claim that its agreement infringed upon the rights of any other person in King Kong. (A167-68, 178-80, 426, 296-97, 377, 401, 719-22)

Coleco ultimately paid Universal a total of more than \$4.5 million under this agreement. It continued to make all required payments to Nintendo. Nintendo would not have been entitled under its licenses to any of the monies Universal was paid. Its licenses gave Coleco no warranty or indemnity against claims like Universal's and required Coleco to defend them at its own expense. (A298-99, 377, 401)

* Greenberg's receptivity to settlement presumably reflected the fact that, apart from the "Donkey Kong" game itself, a "Donkey Kong" commercial which he planned to use in marketing the game—and which he and Sheinberg screened later in the day—is a clear appropriation of the character and story of King Kong. (A348-49, 527, 664-65)

** Although the District Court never mentions that the telex expressly stated the basis for Universal's claim of rights, it nonetheless adopted such findings as that "Universal pointed cryptically to unspecified documents as the source of its rights." 615 F. Supp. at 851. In the telex, in its complaint and elsewhere, Universal consistently "specified" the Cooper Judgment and related documents "as the source of its rights." (A21, A1986-87)

The District Court rejected Nintendo's counterclaim seeking recovery of the sums Coleco paid to Universal on "tortious interference" grounds and on a theory of unjust enrichment and/or misappropriation of Nintendo's "Donkey Kong" rights. 615 F. Supp. at 855-57, 860-61. These counterclaims are a subject of Nintendo's cross-appeal herein.*

3. Nintendo Refuses to Settle.

Coleco also convened a meeting among itself, Universal and Nintendo to resolve Universal's claims against Nintendo. The parties met on May 6, 1982. Minora Arakawa, Nintendo of America's president, and his counsel were present on behalf of Nintendo. Hadl and Kroft attended for Universal. The discussion focused on the nature of Universal's King Kong rights, not the question of likely confusion between King Kong and Donkey Kong. Kroft, who Nintendo was told had represented

* At various points in the 1985 Decision, the District Court suggests that Coleco settled with Universal because its "Donkey Kong" plans made it "commercially vulnerable"—the implication being that Universal was guilty of bullying a weak competitor. 615 F. Supp. at 847, 862. But Nintendo cannot dispute that Coleco was a substantial and successful firm run by sophisticated businessmen and advised by sophisticated lawyers. See, e.g., *Niemczyk v. Coleco Indus., Inc.*, 581 F. Supp. 717, 718 (N.D.N.Y. 1984). It is, indeed, a much more substantial firm than Nintendo of America, for which "Donkey Kong" was almost its entire business. (A257-62) Coleco's officers acknowledged on deposition that their decision to settle with Universal reflected at least in part a desire to foster an "atmosphere of good will" in significant business discussions wholly unrelated to "Donkey Kong." A714; see also A667-68. Greenberg himself admitted that his decision to enter into an agreement was largely motivated by commercial considerations on behalf of Coleco overall. A670; see also A667-68, 241-42.

Although MCA's investment banker, Felix Rohatyn of Lazard Freres, ultimately advised Coleco that MCA had decided not to make an investment in Coleco—a decision from which Sheinberg dissented—the discussions of this subject continued even after the "Donkey Kong" settlement. 615 F. Supp. at 848; A350-51. Other significant discussions looking toward joint licensing ventures—including one with respect to "E.T." which involved meetings with its director, Steven Spielberg—continued well into the summer. (A723-24, 669)

Universal in the California litigation, assured Arakawa and his lawyer that the question of Universal's rights was "open and shut," but also stated that Universal would spend as much time as they needed to assure themselves. Arakawa showed no willingness to offer any settlement. (A361, 168-70, 191-94, 710-13)*

At Nintendo's request, a second settlement meeting was held, on May 21, 1982. This was after Universal and Coleco had actually signed their agreement. Sheinberg attended as well as Hadl. Sheinberg forcefully urged Arakawa to come to a settlement, making clear Universal's willingness to litigate if it did not. Nintendo responded that, after a full investigation, it did not believe that Universal's claims had any merit and declined to settle them. This action was commenced against Nintendo a little over a month later. (A216-17, 190-91, 217-18, 342-44, 362)**

4. Universal Pursues Settlement with Nintendo's Other Licensees.

Universal continued to pursue settlements with Nintendo's other licensees. While this action was pending but before Nintendo moved for summary judgment, Universal negotiated agreements similar to the Coleco agreement with two other

* The Universal telex which Arakawa had received just a week before specifically referenced the Cooper Agreement as the source of Universal's rights. While never mentioning this fact, the lower court somehow adopted findings that Universal wrongfully refused to specify the basis for its claim of title at the May 6 meeting, and thereafter. Its statements that Universal persisted in this alleged refusal are particularly hard to understand since, when Nintendo definitively rejected Universal's settlement demands two weeks later, the court specifically found that Nintendo did so only "after a full investigation." 615 F. Supp. at 849. (A263-65)

** The 1985 Decision finds that Sheinberg stated in the course of this settlement meeting that Universal was "litigious," and that its "litigation department even turned a profit." 615 F. Supp. at 849. The court seems to have viewed these remarks not as efforts to induce Nintendo to settle, but as proof that Universal took what the court considered an improper attitude towards litigation generally. Indeed, it based its attorneys' fee award in part on this supposed general attitude towards litigation. 615 F. Supp. at 864-65. This was error. See pp. 47-48, *infra*.

major companies: Atari, Inc., another manufacturer of home computers and video games, which was producing a "Donkey Kong" home game under license from Nintendo, and Ruby-Spears, producers of the Hanna-Barbera television cartoons, to which Nintendo had licensed "Donkey Kong" for a cartoon series. (A431, 443, 477, 481)*

Under its agreement, Atari ultimately paid Universal a total of \$55,273; Ruby-Spears paid Universal an aggregate of \$29,485 under its agreement. (A922, 924) Like Coleco, Atari and Ruby-Spears continued to make all payments due to Nintendo. As the District Court found, "[t]hese agreements with Universal . . . did not impair payment of royalties to Nintendo, nor did they alter any other licensee obligations to Nintendo." 615 F. Supp. at 861; see A275-78. The District Court rejected Nintendo's counterclaims seeking recovery, on a theory of tortious interference with contract, of the monies Atari and Ruby-Spears paid to Universal. This counterclaim is also a subject of Nintendo's cross-appeal.

Universal also pursued a settlement with Ralston-Purina, which was marketing a "Donkey Kong" breakfast cereal. Ralston-Purina made an offer of settlement, but Universal rejected it. Prior to Nintendo's summary judgment motion, Universal also held discussions with Milton Bradley, which marketed "Donkey Kong" board games. (A149-51, 232-34)**

* Nintendo's license agreements with Atari and Ruby-Spears, like its licenses to Coleco, contained no warranty, representation or indemnity that Nintendo's trademarks were in fact valid. Moreover, although they were entered into after this case was brought (unlike the Coleco licenses), both disclaim all responsibility with respect to Universal's claims herein. The Atari document also shows that Nintendo's counsel did not advise the company's auditor that Universal's claims were "without merit" or "frivolous," although Nintendo had taken that position in its counterclaims below. (A431, 443, 453-54)

** Only one of Nintendo's licensees has ever challenged Universal's assertion of rights: in mid-1984, Coleco brought suit in the court below seeking recovery of the monies it paid Universal (the "Coleco case"). Neither Atari nor Ruby-Spears ever asserted any claim against Universal.

(Footnote continued)

5. The 1983 Letters.

In early 1983, Townley & Updike sent letters (the "1983 Letters") to a large number of smaller Nintendo licensees which had agreements to sell "spin-off" products (such as "Donkey Kong" pajamas). *E.g.*, A471, 473, 540, 544, 564, 569, 573, 578, 591. The 1983 Letters recited that Universal had commenced this litigation, described the claims Universal was asserting, and urged the addressee to avoid assertion of similar claims either by settling with Universal or ceasing sales. None of the recipients of the letters ever did settle with Universal; many of them did not even respond to the letters. (A231) Many of them were in fact not even producing or selling the products. However, Nintendo claimed that, because of the Letters, six of the recipients failed to make guaranteed payments aggregating \$94,219.41. It is only this sum which the District Court awarded Nintendo as compensatory damages for Universal's "tortious interference." 615 F. Supp. at 854.*

On March 9, 1983, Nintendo's counsel advised Townley & Updike that it intended to move for summary judgment on Universal's complaint. Universal thereafter ceased to pursue settlements with Nintendo's licensees. (A920, 147; 231-32, 247-48)

Nor has Nintendo itself made a breach of contract claim—or *any* claim—against Coleco, Atari or Ruby-Spears, notwithstanding its contentions below that Universal "tortiously induced" such a breach in all three cases. (A282, 298-99) Universal had to join Nintendo to a counterclaim in interpleader in the *Coleco* case to avoid the risk of double exposure.

In the *Coleco* case, the District Court has recently denied Coleco's summary judgment motion: *Coleco Indus., Inc. v. Universal City Studios, Inc.*, 84 Civ. 2596 (S.D.N.Y. Feb. 3, 1986). Coleco's motion was based on the theory that the 1985 Decision in the present case collaterally estopped Universal from contesting its liability to Coleco. The *Coleco* case is now in discovery.

* None of the recipients of the 1983 Letters has ever asserted any claim against Universal. Nor has Nintendo ever asserted any claim against them. Moreover, the "actual damages" Nintendo was awarded below were almost certainly *not* caused by the 1983 Letters. A281-82; see p. 35 n.*, *infra*.

G. The Present Litigation Against Nintendo.

After its efforts to settle with Nintendo were rebuffed, Universal decided to file its litigation in the Southern District of New York rather than in California. Accordingly, the Rosenfeld firm, which has no New York office, ceased to function on the matter, and Townley & Updike was retained by Universal. Kroft's last act was to recommend that Universal obtain an appropriate assignment of cause of action from RKO. RKO's status as a constructive trustee under the Cooper Judgment left open the possible argument that it was a necessary party to a suit under that Judgment. RKO promptly gave the requested assignment. (A194-200, 525, 214-15, 228-29, 240, 340-42, 1108-09, 1111-12)

Townley & Updike's complaint (A21), signed by a partner of the firm, and filed on June 29, 1982, relied on the Cooper Judgment.* It pleaded the derivation of Universal's "trade name, trademark, service mark and other rights in the name, character and story of KING KONG" "[b]y virtue of certain agreements and written assignments entered into between Universal and RKO General Inc. and Universal and the heirs of Merian C. Cooper" (§ 6). It alleged that the name, character and story had been made widely known and popular in part by virtue of the King Kong movies and in part by "the advertising and sale of consumer products and services, including various toys, posters, and sundry items." It alleged that "the KING KONG name, character and story, including the visual image of a giant gorilla atop a tall building, have become, and are, well known to the public, and are associated and identified by the public with their creators to whose rights therein Universal has succeeded, is now owner and has expanded upon as described *infra*." (§§ 9-11).

Following extensive discovery, Nintendo moved for summary judgment on Universal's complaint.** That motion was

* The 1985 Decision erroneously states that "[t]he complaint which Universal filed had been drafted by Kroft." 615 F. Supp. at 850. Compare A21 with A1297.

** The 1985 Decision erroneously states that both sides cross-moved for summary judgment. 615 F. Supp. at 842.

granted on the grounds that (1) the Cooper Judgment was an "assignment in gross" which had not successfully transferred RKO's trademark rights to Cooper, (2) King Kong lacked secondary meaning as a matter of law, because of the Cooper Judgment (and the Cooper/Universal agreement) and (3) there was no likelihood of confusion between "Donkey Kong" and King Kong. On Universal's appeal from a Rule 54(b) judgment, this Court affirmed on the third issue only, declining to reach the Cooper Judgment or secondary meaning issues. 746 F.2d 112, 115 (2d Cir. 1984).

On remand, a bench trial of Nintendo's counterclaims was had, which resulted in the dismissal of all of them but two. In sustaining one of Nintendo's "tortious interference" counterclaims—that based on Townley & Updike's 1983 Letters—the court held that Universal was not entitled to a defense of reliance on Kroft's advice. The court rejected this defense in part because Universal had failed to call Kroft to the stand or to establish that his advice had "justification," that it was "proffered with[] research or memoranda analyzing the claim," that it was supported by "analysis of the merits of the professed claim." 615 F. Supp. at 846-47, 862. And, indeed, Universal had put on no such evidence, believing—as its trial counsel stated in summation (A371)—that it had no burden to establish that its counsel's advice was correct, much less that it reflected adequate "research or memoranda."

Promptly after Universal's present counsel was retained, Universal sought a partial new trial, to permit Kroft to testify to the "justification" for his advice and to describe his "research [and] memoranda analyzing the claim."* A full declaration by Kroft was submitted in support of the motion setting forth his proposed direct testimony with respect to, *inter alia*, the Cooper Judgment, the RKO agreement, and the other matters described above.

Kroft's declaration (A1083) was accompanied by an exhibit binder (A1113) which included the Rosenfeld firm's "research

* Universal reserved its legal objection that no such evidence was required to establish the defense.

[and] memoranda," his complaint drafts, and other work product. The research materials included a 22-page, detailed memorandum of law (A1209) establishing that Kroft had full support and "justification" for his advice.

The lower court denied the motion for a partial new trial. Its brief opinion made no reference to the stated requirements that Universal show that Kroft's advice had "justification," and so on. The court also made no changes to its 1985 Decision. (A64)

This appeal, and Nintendo's cross-appeal, followed.

Argument

POINT I

THE COURT BELOW ERRED AS A MATTER OF LAW IN ITS TREATMENT OF THE COOPER JUDGMENT. THE COOPER JUDGMENT WAS NOT AN INVALID TRANSFER IN GROSS, NOR DID IT DESTROY THE MARK'S SECONDARY MEANING AS A MATTER OF LAW.

Based on its reading of the Cooper Judgment (A844, 848, 872), the court below held that Universal "does not own a trademark in King Kong." 578 F. Supp. at 923. This was error.

Universal's chain of ownership has two links: (i) the Cooper Judgment and (ii) the Cooper-Universal agreement transferring all of Cooper's rights to Universal (subject to Cooper's reservation of publishing rights). 578 F. Supp. at 921. The District Court did not challenge the second link: "[u]nder the Cooper-Universal Assignment, Universal owns everything the Cooper Judgment gave Cooper [except the publishing rights]." *Id.* at 924. Universal thus stands in Cooper's shoes here.

The error of law lies exclusively with respect to the first link. The District Court treated the Cooper Judgment, although entered by another federal court of coordinate jurisdiction, as having a legal effect directly contrary to its intended effect. According to the court below, the Cooper Judgment was "unsuccessful" since "the transfer of the King Kong trademark [to Cooper] did not comport with [legal] requirements."

It treated the Cooper Judgment as an impermissible "assignment in gross" which attempted to "transfer" trademark rights "by operation of law" and without an accompanying "transfer" of "any other aspect of RKO's business." 578 F. Supp. at 921-23.

A. The Cooper Judgment Was a Judicial Declaration of Rights, Not an Attempted "Transfer" of RKO's Trademark Rights.

The 1983 Decision was fundamentally wrong in treating the Cooper Judgment as entailing a "transfer" of RKO's trademark rights at all (albeit an "unsuccessful" one). The Cooper Judgment was a declaratory judgment, not a conveyance or other "transfer"; and it declared that, as a matter of legal effect, "all rights" in King Kong had *always* belonged "exclusively" to Cooper (except for the movie production licenses to RKO and the derivative copyright rights to which they gave rise). (A845) The California Federal Court decided precisely that Merian Cooper had never given RKO anything more than a movie production license. Thus, it makes no difference that the Cooper Judgment does not fall into particular categories of trademark "transfer" permitted by the court below.*

Yet it was the treatment of the Cooper Judgment as a failed "transfer" which underlay the District Court's ruling that the Judgment "did not comport with [legal] requirements." The District Court erroneously treated the Judgment not as a judicial declaration of property rights, but as a flawed conveyance. In substance, it disregarded its status as a judicial act and read it as a piece of inept drafting by an inexperienced trademark lawyer.

This was clear error. See 28 U.S.C. § 2201 (declaratory judgment a distinct remedy from "further relief"); Rule 57,

* The District Court did not take issue with the California Federal Court's conclusions that the senior Cooper had never granted RKO more than a motion picture license, that to the extent it engaged in any other King Kong business RKO was a misappropriator, and that—but for the "transfer" defects—the Cooper Judgment was intended to encompass trademark rights. It simply held that the California Court failed to respect the rule against "assignments in gross." 578 F. Supp. at 921-23.

Fed. R. Civ. P. (same); *Skelly Oil Co. v. Phillips Petroleum Co.*, 339 U.S. 667, 671-72 (1950) ("The Declaratory Judgment Act allowed relief to be given by way of recognizing the plaintiff's right even though no immediate enforcement of it was asked."); *Beacon Construction Co. v. Matco Electric Co.*, 521 F.2d 392, 397 (2d Cir. 1975) (Declaratory Judgment Act supplies an "additional remedy . . . without invoking . . . coercive remedies"); see also *Grand Union Co. v. Cord Meyer Development Co.*, 761 F.2d 141, 147 (2d Cir. 1985) (recognizing District Court's broad "power to devise whatever remedy it believes in its discretion 'is necessary to make . . . injured parties whole' "); *Levitt Corp. v. Levitt*, 593 F.2d 463, 469 (2d Cir. 1979) (same). See generally 5A. Corbin, *Contracts* § 991.

The District Court's "transfer" analysis also underlay its conclusion that King Kong lacked "secondary meaning" as a matter of law. It viewed the "transfer" as having impermissibly "split up" King Kong because of the copyright rights it left in RKO, 578 F. Supp. at 923-25—the implication being that valuable rights which did exist prior to the Judgment were unwittingly destroyed by the California Federal Court's actions.*

Nothing in the 1983 Decision suggests that the lower court believed that King Kong lacked secondary meaning before the Cooper Judgment was entered; its express recognition of "RKO's trademark rights" indicates precisely to the contrary. 578 F. Supp. at 923. Nor does the 1983 Decision suggest that the California Federal Court *intended* the Cooper Judgment to change the public perception of King Kong or otherwise to impair its present or future commercial value; to the contrary, that court clearly intended to change only the beneficiary of that value, to declare that it belonged not to the misappropriator, RKO, but to its rightful owner, Cooper. The California

* As set forth above, this Court's prior opinion did not reach the District Court's holding that summary judgment against Universal was appropriate on the "secondary meaning" issue. 746 F.2d at 115. This Court held only that, with specific reference to "Donkey Kong," there had been no showing of a "likelihood of consumer confusion" with King Kong. The distinct "secondary meaning" bears upon Universal's trademark rights in situations which have nothing to do with "Donkey Kong."

Court's findings recited in so many words that they "declare the rights as between Richard Cooper and RKO and do not affect any other person or entity," and the Judgment states that the rights it recognizes are vested "exclusively" in Cooper. (A855,845) *Compare Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 334 (2d Cir. 1983).

Yet, on the District Court's view that "RKO's trademark rights" were not "successful[ly] transfer[red]," the Cooper Judgment was not only ineffectual but actually *destroyed* the merchandising business which the California Court intended Cooper to own. Because the Judgment deprived RKO of the merchandising business—since the Judgment is *res judicata* as to RKO, regardless of the lower court's view of its "success"—the District Court's reading means that the California Court unwittingly deprived "RKO's trademark rights" of enforceability in *anyone's* hands.

B. An "Aspect of RKO's Business" Was "Transferred" to Cooper.

Even if the Cooper Judgment can be deemed a "transfer," the Court committed clear error in holding that no "aspect of RKO's business" was awarded to Cooper so that the Judgment was a prohibited "transfer in gross." It is clear from the face of the Judgment itself that, if it "transferred" anything, it "transferred" "*all* rights"—including the right to control future movie versions, the King Kong merchandising business which RKO and its licensees had developed under the King Kong mark, and the right to continue that business in the future.

The uncontradicted record below confirmed that the past merchandising activity represented a substantial business, and that the King Kong trademark was an integral *part* of that business. (A309-11)* The uncontradicted record also showed

* Thus, in the roughly three-year period beginning just before the California litigation was commenced and ending just before Universal's exercise of merchandising rights began, RKO's licensee Paramount Pictures Corp. "entered into licenses with over 30 different companies in which [Paramount] authorized the use of the King Kong name and character as

that RKO took action to prevent King Kong merchandising which it had not authorized in order to protect the mark. It wrote demand letters to suspected misappropriators, threatened them with litigation, and generally conducted itself as people do in protecting a valuable trademark. RKO's licensees did likewise. (A1001-37, 81, 311-13)*

The uncontradicted record below also showed that, after entry of the Cooper Judgment, RKO fully understood that the Judgment declared that Cooper, not RKO, owned the exclusive right to merchandise under the King Kong trademark, and that Universal succeeded to this right when it bought the Judgment. Likewise, Paramount "acknowledged Universal's right to in effect succeed Paramount as the licensing source for products and services sold under the King Kong name and character. . . ." (A1331, 1359, 80-81, 87-88, 139, 526, 614)

There was simply no basis for the conclusion in the 1983 Decision that no "aspect of RKO's business" was "transferred" by the Cooper Judgment. This was not remotely a "transfer in gross" devoid of accompanying good will. See, e.g., *VISA, U.S.A., Inc. v. Birmingham Trust National Bank*, 696 F.2d 1371, 1375-76 (Fed. Cir. 1982), *cert. denied*, 464 U.S. 826 (1983); *Money Store v. Harriscorp Finance, Inc.*, 689 F.2d 666, 676-78 (7th Cir. 1982); *Syntex Laboratories, Inc. v. Norwich Pharmacal Co.*, 315 F. Supp. 45, 54 (S.D.N.Y. 1970), *aff'd*, 437 F.2d 566 (2d Cir. 1971) ("The various technical rules

trademarks for the advertising and sale of such products as games, toys, articles of apparel, film cartridges, ceramics, school supplies, wrist watches and dolls." (A1329-30) A detailed list of the companies licensed to "advertise and sell these products under the King Kong trademark"; and of the products which they marketed was before the court below. (A1353)

Under the Cooper Judgment, *all* of these uses inured to Major Cooper's benefit. Lanham Act § 5, 15 U.S.C. § 1055; A872, 878.

* Ironically, one of the companies which received an RKO demand letter was Atari, Inc., which was planning to market a video game called "King Pong"; as set forth above, Atari, later a "Donkey Kong" licensee, was challenged by Universal on nearly the same basis after Universal succeeded to the Cooper Judgment, and ultimately settled with Universal. See A1001-37; pp. 20-21, *supra*.

connected with the assignment of trademarks . . . were not evolved for the purpose of invalidating all trademark assignments which do not satisfy a stereotyped set of formalities.”). *Compare* A278-81.

C. The Cooper Judgment Gave Universal “Visual Image” Rights.

Nor is there any basis for the lower court’s implicit holding that the Cooper Judgment did not permit trademark use of a King Kong “visual image”—the predicate for the court’s criticism of Universal for asserting “overbroad” rights. Nothing in the Cooper Judgment even purports to restrict Cooper’s rights to employ a “visual image” in trademark licensing of the King Kong name, character and story. It would be inconsistent with the whole purpose of the Cooper Judgment to hold that the derivative copyright rights of RKO, the misappropriator, limited the trademark rights of Cooper in any way that might impair their enforceability or marketability.*

It would be hard to imagine a “broader” recognition of rights than the Cooper Judgment—and properly so, given the California Federal Court’s finding that RKO had, in substance, stolen from Cooper and his father. The plain meaning and intent of that Judgment was to give Cooper the same ability RKO had had to exploit King Kong in merchandising and licensing; and if, as the District Court here seemed to assume, that somehow restricted what would otherwise be the scope of RKO’s movie copyright—then, in substance, so much the worse for RKO.

* Indeed, the very licenses that the Cooper Judgment directed RKO to assign to Cooper authorized, among other items, “King Kong” badges, balloons, mugs, glasses, posters, “King Kong” figures, kites, towels, rain-wear, puzzles, board and card games, binders, notebooks, report covers, lunch kits, T-shirts, pajamas, trading cards and stickers, and watches and clocks, which necessarily involved uses of a King Kong “visual image.” (A700, 1353)

The entire “visual image” issue which Nintendo conjured up was a red herring. RKO, whose rights Nintendo was in effect asserting, never disputed even in principle that Universal could use a King Kong visual image—including that of the famous Empire State Building scene—in its trademark licensing. Its own staff people raised no objection even to the use of actual stills. A683, 695, 788-89, 800, 488; p. 16 n.*, *supra*.*

At the barest minimum, as Universal repeatedly and pointedly urged below, Universal had “visual image” rights under paragraph 6 of its agreement with RKO. (A888) If the District Court had any doubts about the scope of RKO’s rights under the Cooper Judgment, it could and should have construed the Judgment in light of RKO’s agreement on the same subject. It erroneously failed to do so.

* * *

The reading of the Cooper Judgment adopted in the 1983 Decision converted it from an instrument designed to remedy an historic wrong into a license to commit commercial misconduct of precisely the sort it condemned. That reading was premised on the totally illogical view that the rights of RKO, the misappropriator, were more important than those of its victim, Cooper. That reading deprived Cooper, and Universal as his successor, of valuable commercial rights which a co-ordinate federal court intended them to have. That reading was clearly erroneous. Cooper, and Universal as his successor, in fact had the rights asserted in the complaint below.

* Moreover, if RKO had sought to obstruct Universal’s full exploitation of its Cooper Judgment rights—as, in substance, Nintendo has done in the court below—Universal unquestionably would have prevailed before the California Federal Court in ancillary proceedings under the Judgment. *E.g.*, *Hamilton v. Nakai*, 453 F.2d 152, 157 (9th Cir. 1971), *cert. denied*, 406 U.S. 945 (1972); *see also Levitt Corp. v. Levitt*, 593 F.2d 463 (2d Cir. 1979). But we respectfully stress that Nintendo, and the District Court, have given this “visual image” issue infinitely greater significance than it ever actually assumed between Universal and RKO.

POINT II

UNIVERSAL'S ASSERTION OF RIGHTS AND INSTITUTION OF SUIT WERE NOT TORTIOUS.

A. Universal's Conduct in Threatening Litigation Cannot Give Rise to Tort Liability Under New York Law.

The District Court, purporting to apply New York law, held that Nintendo was tortiously damaged "as a result of Universal's threatened litigation" in the 1983 Letters sent out by Townley & Updike. 615 F. Supp. at 860-63; *see also Coleco Industries, Inc. v. Universal City Studios, Inc.*, 84 Civ. 2596 (RWS), slip op. at 11 n.1 (S.D.N.Y. Feb. 3, 1986). This holding violated New York law and New York public policy.

Liability under New York law could not arise from Universal's threat—or even commencement—of civil litigation under the Cooper Judgment, assuming *arguendo* Universal was improperly motivated. *Curiano v. Suozzi*, 63 N.Y.2d 113, 116, 117, 480 N.Y.S.2d 466, 468 (1984); *Belsky v. Lowenthal*, 62 A.D.2d 319, 322-23, 405 N.Y.S.2d 62, 65 (1st Dep't 1978), *aff'd*, 47 N.Y.2d 820, 418 N.Y.S.2d 573 (1979); *Chappelle v. Gross*, 26 A.D.2d 340, 342, 274 N.Y.S.2d 555, 557 (1st Dep't 1966) ("in this state, no action will lie for the bringing of a civil suit, improperly motivated").

This rule reflects fundamental New York public policy. The classic statement is that of Justice Steuer in *Chappelle, supra*:

There is a lack of uniformity in the common law jurisdictions as to whether an action will lie for the bringing of a civil suit improperly motivated or without belief of the person suing in the soundness of his claim. *This state has always held to the principle that no cause of action accrues to the successful defendant.* The reasoning behind such a stand has lost none of its cogency since the rule was last iterated. *Our public policy is very strong in allowing access to the courts to all parties. Fear of reprisal beyond the imposition of costs should not be allowed to act as a deterrant.* And even proof that costs will not

make the defendant whole has not been allowed to overcome this policy.

—26 A.D.2d at 345, 274 N.Y.S.2d
at 561 (dissenting opinion)
(citations omitted) (emphasis added).

See, e.g., *Belsky v. Lowenthal*, *supra*, 62 A.D.2d at 322-23, 405 N.Y.S.2d at 65.

Just two years ago, in *Curiano v. Suozzi*, *supra*, New York's highest court strongly reaffirmed this rule. It squarely rejected an attempt like Nintendo's to evade the policy of open access to the courts by a pleading which claimed, like Nintendo's counterclaims, that the commencement of allegedly bad faith and meritless litigation constituted "intentional infliction of economic harm." 63 N.Y.2d at 116, 480 N.Y.S.2d at 468. In affirming dismissal of the complaint, the Court of Appeals stated that it did not matter what tort label was applied: "[T]he stringent requirements we have set for traditional torts, such as malicious prosecution, . . . are necessary to effectuate the strong public policy of open access to the courts for all parties without fear of reprisal in the form of a retaliatory lawsuit." 63 N.Y.2d at 118-19, 480 N.Y.S.2d at 470. *Curiano* makes it clear that, in order to establish Universal's tort liability, under whatever legal rubric, Nintendo had to establish the elements of abuse of process or malicious prosecution. 63 N.Y.2d at 116, 480 N.Y.S.2d at 468.

So far as abuse of process is concerned, "the institution of a civil action by summons and complaint is not legally considered process capable of being abused." 63 N.Y.2d at 116, 480 N.Y.S.2d at 468. In malicious prosecution, it must be shown that the unsuccessful plaintiff obtained an injunction, order of arrest or some other court-ordered process which interferes with the person or property of the prevailing defendant. 63 N.Y.2d at 118, 480 N.Y.S.2d at 469. Moreover, "actual malice" would have to be found, not just the "lack of probable cause" which is all the District Court found here. 615 F. Supp. at 861-62. E.g., *Martin v. City of Albany*, 42 N.Y.2d 13, 17, 396

N.Y.S.2d 612, 614-15 (1977) (probable cause and actual malice are "independent and indispensable elements"; malice may only be inferred from probable cause when latter is "so totally lacking as to reasonably permit an inference that the proceeding was maliciously instituted"); *Hickland v. Endee*, 574 F. Supp. 770, 778-79 & n.17 (N.D.N.Y. 1983), *aff'd mem.*, 732 F.2d 142 (2d Cir. 1984).*

Nintendo did not establish the required elements for tort liability. Indeed, the facts are uncontradicted. Universal did not even sue the recipients of the 1983 Letters, much less obtain any provisional remedy. Against Nintendo itself, Universal "used" no other "process" than a "summons and complaint."** Townley & Updike's 1983 Letters simply warned Nintendo's licensees that they too would be sued if they refused to recognize Universal's rights. Since under *Curiano* it would not be tortious to have actually brought suit, the lesser "wrong" of threatening to do so could hardly be tortious, particularly where Universal was manifestly quite willing to act

* In two pre-*Curiano* decisions, there is dictum suggesting that the mere institution of civil litigation might be sufficient to constitute the "wrongful means" required for tortious interference. *Guard-Life Corp. v. S. Parker Hardware Manufacturing Corp.*, 50 N.Y.2d 183, 191, 428 N.Y.S.2d 628, 632 (1980); *Zilg v. Prentice-Hall, Inc.*, 717 F.2d 671, 677 (2d Cir. 1983), *cert. denied*, 466 U.S. 938 (1984). However, neither case even stated that the strong New York policy later reaffirmed in *Curiano* could be evaded by allegations of "tortious interference with contract." Moreover, neither remotely supports Nintendo's theory that Universal's conduct was tortious because of the *overbreadth* of its claims.

Indeed, the District Court did not find that the *breadth* of Universal's complaint had anything to do with the nonperformance by Nintendo's licensees. To the contrary, the District Court expressly found that the licensees' customers "refus[ed] to do business with a licensee whose product was involved in litigation"—not involved in litigation under an "overbroad" complaint. 615 F. Supp. at 853 (emphasis added). Indeed, one licensee stated in so many words that it would not sell goods which were involved in litigation "whether right or wrong." (A595)

** Ironically, the District Court seemingly held it *against* Universal that it did *not* seek a preliminary injunction. See 615 F. Supp. at 854; *but see* A240-41.

on the threat—as it did against Nintendo itself. Moreover, it turned out that, of the handful of licensees for which Nintendo claimed damages, all had failed to perform long before they received Townley & Updike's letter, so that no causation was proven.*

The District Court erred as a matter of law in sustaining even one of Nintendo's "tortious interference" counterclaims. All of them were defective attempts to evade the Court of Appeals' decision in *Curiano*.

B. As a Matter of Law, Universal Was Privileged to Rely on the Advice of Counsel.

The District Court also committed clear error in failing to rule that Universal's reliance on the advice it received from Kroft constituted a complete defense to Nintendo's claims.

1. The District Court Misread the Authorities It Relied On.

The District Court purported to apply the general common law principles set forth in the *Restatement (Second) of Torts* on this issue. See 615 F. Supp. at 861-63. The court misread the *Restatement*, failing even to cite relevant provisions.

The 1985 Decision held that Universal had the burden—beyond showing that counsel's advice was sought, obtained and relied on—of proving that the advice itself had "justification,"

* Thus, of the seven "spin-off" licensees involved—out of 40 who received letters from Townley & Updike—three never marketed a single "Donkey Kong" product under their licenses—although all were scheduled to commence production long before January 1983, and consequently were in breach of their licenses even before they received the 1983 Letter. Two other licensees were able to generate only a small fraction of guaranteed royalties during the months of their license prior to receipt of the letter. The sixth, Sylva Manufacturing Company—which never contacted Universal—also failed to produce any merchandise under its license and waited until May 1984 before claiming that the pendency of Universal's suit against Nintendo—filed in June of 1982—had chilled its marketing effort. Nintendo offered no evidence of damages as to the seventh. (A268-75, 281, 283-84, 290-95, 532, 548, 556, 568, 583, 910-18)

that it was "proffered with[] research or memoranda analyzing the claim," that it was supported by "analysis of the merits of the professed claim." 615 F. Supp. at 846-47, 862. In the same vein, the court was critical of Sheinberg for testifying "that he did not know what rights were owned, although he specifically authorized filing the complaint in this action." 615 F. Supp. at 851.

These holdings were absolutely without legal basis. Neither the *Restatement* nor any case that we are aware of has ever imposed such requirements on a litigant—in substance, to prove that his counsel's advice in fact had an adequate legal and factual basis, and that the client knew the legal bases for the counsel's advice. The relevant portion of the *Restatement* expressly permits reliance on counsel's advice "even though it consists merely of an opinion." See Comment (g) to § 675.*

The court purported to apply Section 675, part of Chapter 30 on "Wrongful Use of Civil Proceedings." However, it did not consider (or cite) Comment (g) to § 675, which is entitled "*Advice of counsel.*" Comment (g) states in substance that the advice of counsel in a civil matter gives a similar but *broader* protection than that which it gives to the initiator of criminal proceedings:

When the proceedings are civil the advice of counsel is a protection *even though it consists merely of an opinion* that the facts . . . known or believed [by the plaintiff]

* Indeed, the Court below, in *this* case, gave Universal no prior notice that its reliance on counsel would not be credited if it failed to prove that the advice had "justification." (A371, 1080) It was that failure of notice which prompted Universal to seek a partial new trial after the 1985 Decision was issued. In its opinion denying Universal's motion (A64), the lower court did not address Universal's showing that it had had no reason to anticipate the requirement that it establish the "justification" for its counsel's advice.

Moreover, Universal's factual showing on its new trial motion included a detailed demonstration that its counsel's advice in fact *had* been "proffered with research and memoranda" and was supported by "analysis of the merits of the claim." (A1099-1100, 1111, 1180, 1184, 1234) Nonetheless, the partial new trial was denied.

afford a chance, whether great or small, that the claim asserted in the civil proceedings may be upheld. With this difference, the Comments on § 666 are pertinent to this Section.

—Emphasis added.

Kroft's advice that Universal was "on firm ground to bring this complaint and this action" more than satisfied this requirement. (A204)*

We recognize that the court found Universal not to have acted in good faith in seeking the advice. But in so doing, it never even considered what the *Restatement* defines as good faith for these purposes. Comment (e) to § 666, entitled "*Good faith*" (which the court never cited), states that good faith does not exist:

if a person goes from attorney to attorney until at last he finds one who, contrary to the opinion of those who preceded him, is willing to advise the bringing of a prosecution, he does not act in good faith and is not protected by the rule stated in this Section. Good faith also implies a belief on the part of the client that the attorney whom he consults is competent to give advice upon the case in hand.

There was absolutely no finding or evidence either that Universal went "from attorney to attorney" or that it had the

* The three "advice of counsel" cases cited by the District Court, 615 F. Supp. at 862, do not support its conclusion that Universal could not rely on Kroft's advice in bringing or threatening suit. Each arose under a particular statutory scheme, and all involved the scope of reliance on counsel as a defense to alleged primary misconduct. In this case, by contrast, Nintendo made *no* claim of unlawful primary conduct (except for its copyright claim, as to which see Point IV, *infra*). Rather, its claims were premised on alleged litigation misconduct (or "threatened" misconduct). Contrast *SEC v. Manor Nursing Centers, Inc.*, 458 F.2d 1082, 1101-02 (2d Cir. 1972) (attempted reliance on advice of counsel not a defense to injunctive action based on knowing violation of federal securities laws).

slightest reason to doubt Kroft's "competen[ce]." To the contrary, the record was undisputed that Hadl consulted *only* Kroft, and abided by his advice in all respects; nor can it be seriously claimed that Kroft—who had represented Universal in the Cooper litigation and who had actually prepared the Cooper/Universal and RKO/Universal agreements—was anything but qualified to render advice about Universal's rights. See pp. 9-11, *supra*.

2. The District Court's Findings of Bad Faith Were Clearly Erroneous.

Disregarding the *Restatement's* concept of good faith in § 666, the District Court held that Universal was precluded from relying on Kroft's advice because it was, in effect, "using" Kroft. Thus the court criticized "*Universal's* limited investigation," stating that it was "structured" so that "the inadequacy of the claim would remain obscured while the collateral benefits of the litigation were enjoyed." 615 F. Supp. at 862 (emphasis added). The court criticized Universal for consulting Kroft rather than DiMuro with respect to "Donkey Kong," finding that "consultation with DiMuro . . . was consciously avoided." 615 F. Supp. at 850.

These criticisms were predicated on two findings: one, based on Sifuentes' deposition testimony, that Universal "knew" that it "hadn't any rights in King Kong to license"; the second, based on DiMuro's copyright advice to Sheinberg, that Universal "knew" that its trademark rights were fatally limited by RKO's "visual image" rights.

These findings were clearly erroneous.

(a) *Sifuentes' Story Was Not Credible.*—The court stated that only Sifuentes' deposition itself "is available to test her credibility." 615 F. Supp. at 846. This was clear error. A whole host of factors was "available" for that purpose, and all show that she fails the "test."

Thus, the District Court concededly failed to "test her credibility" against, *inter alia*: the terms of the Cooper Judgment itself, *see* Point I, *supra*; the fact that Sifuentes had had no involvement in and no familiarity with the litigation which gave rise to the Cooper Judgment (A844, 783, 786-87); the fact that she admitted never reading the Cooper papers because they were "too long" (A783); the fact that the alleged "decision to cease licensing" had been reached without consulting Kroft, who had handled the Cooper litigation (A782, 793, 795-96, 803-04); the fact that Sheinberg had a strong personal interest in the King Kong matter, as the District Court found, and was actively overseeing a new King Kong movie, yet was not even consulted by Sifuentes on her own version of events (A789a, 795, 798-99); the fact that Sheinberg "did not ask [DiMuro] what trademark rights Universal had in King Kong" (A135); the fact that Sheinberg (through Hadl) *did* seek that advice from Kroft, whom Sifuentes admittedly did not consult (A160-61, 204); the fact that not even Adler, Sifuentes' immediate superior—whom Sheinberg had directed to *begin* King Kong licensing—corroborated her story that such licensing was *stopped*; to the contrary, Adler testified just months after her alleged decision:

Q Do you believe, Mr. Adler, that both Merchandising Corporation of America and Universal Studios, Inc. own the trademark rights in King Kong?

A Yes.

—A632.

Moreover, the lower court did not, in "test[ing] her credibility," take account of the fact that Sifuentes had every reason to wish King Kong away, given her carelessness in initially granting Tiger an inappropriate King Kong license, the severe reprimand which that earned her, her failure to follow up on her King Kong trademark searches and her failure to advise her superiors of "Donkey Kong." The point is much more than she may have been a "disgruntled ex-employee," as the District

Court stated, 615 F. Sup. at 846; the point is that the King Kong matter in particular had been a source of grief and embarrassment for her.*

While the 1985 Decision states the general principle that "corporate knowledge and intent is a mosaic made up of smaller bits and pieces of motivation held by various Universal officers and employees, from its Chief Operating Officer to its Divisional Officers, as well as its lawyers, in house and outside," 615 F. Sup. at 842, the court completely disregarded this principle in crediting Sifuentes. As shown above, her testimony was either unsupported or specifically *contradicted* by every other Universal witness, *including* "its Chief Operating Officer [Sheinberg], . . . its Divisional Officers [Adler], as well as its lawyers, in house [DiMuro] and outside [Kroft]."***

The District Court also stated that Sifuentes' testimony was "consistent with both previous and subsequent events." But precisely the opposite was true: only if one starts from some kind of presumption that the Cooper Judgment failed to accomplish its intended purpose—and that everyone at

* In addition to the King Kong incidents described in text, she was also responsible for an arguably fraudulent attempt to register a King Kong trademark use; the alleged "use in commerce" which she employed was so clearly not *bona fide* as to cause Kroft concern that Universal might be found to have committed a fraud on the U.S. Patent and Trademark Office. (A1109-10, 1217-19) Even Nintendo's counsel was incredulous as he elicited her testimony about this incident at her deposition. (A750-74) The registration application was cancelled when more senior Universal executives learned of it. (A181-82) The District Court, although aware of this incident, 615 F. Sup. at 845, did not take account of it in deciding that there was no means of "test[ing] her credibility," *id.* at 846.

** Hadl also specifically denied that Sifuentes told him about her and DiMuro's "decision." (A201-02) Sifuentes' testimony was also inconsistent with the third party RKO witness, whose deposition was given in March and April, 1983, long after she and DiMuro made their alleged "decision." He made it clear that DiMuro had consistently dealt with him on a basis which showed that DiMuro never doubted that Universal had "rights to license." (A678-80, 682-83, 685, 689-96)

Universal knew this 18 months before the 1983 Decision—is her testimony “consistent with previous events”; and only if one presumes that “subsequent events” would involve tortious misconduct, perjury by every other witness except Sifuentes, and legal malpractice is her testimony “consistent” with them. This observation of the District Court is a classic instance of circular reasoning: everyone else was lying because they testified inconsistently with Sifuentes; Sifuentes is to be believed because her testimony is “consistent” with the fact (*sic*) that everyone else was lying.*

Indeed, not even the District Court could bring itself to accept the real implications of what Sifuentes was saying. Faced with DiMuro’s categorical denial of Sifuentes—not a failure of recollection or some other equivocal response—the District Court took refuge in attempted light humor, quoting Lord Byron to the effect that “Homer sometimes sleeps.” 615 F. Supp. at 846.

This will not do. Serious people under oath—“credible,” “consistent,” “conservative” people—do not “sleep” on the witness stand. The record is absolutely devoid of any basis for the court’s implication that DiMuro treated the subject of Universal’s King Kong rights—or his obligations as a witness—casually or carelessly. The record is squarely to the contrary.

A District Court’s finding of fact may be set aside as clearly erroneous when a reviewing court, on the entire record, is “‘left with the definite and firm conviction that a mistake has been committed.’” *Anderson v. City of Bessemer City*, 105 S. Ct. 1504, 1511 (1985), quoting *United States v. United States Gypsum Co.*, 333 U.S. 364, 395 (1948). See, e.g., *Winston v.*

* A similar circularity is evident in the District Court’s reliance on the fact that “Universal failed to mount any efforts to deter unauthorized third-party uses” of King Kong as “evidence” that Sifuentes’ “no rights” position was really Universal’s position. 615 F. Supp. at 851, 862. Sifuentes concededly never *told* Sheinberg or any senior executive about the results of her trademark searches, see p. 13 n.*, *supra*, so that it was her own (and Adler’s) decision not to “mount any efforts” that the court was relying on to “prove” that “Universal” acquiesced in her views.

Mediafare Entertainment Corp., 777 F.2d 78 (2d Cir. 1985) (Court of Appeals, in considering objective factors in case, was left with definite and firm conviction that the District Court had erred—where its decision was based on *oral* hearing testimony, not a deposition). This standard is surely met here.

(b) *The court's "overbreadth" findings were clearly erroneous.*—The District Court's "assignment in gross" conclusions about the Cooper Judgment, and its acceptance of Sifuentes' testimony, are also impeached by its repeated findings that Universal's complaint was "over-broad." Manifestly, these findings would have been unnecessary if it really believed that the Cooper Judgment was invalid, or that Universal had decided that it had "*no rights*," as Sifuentes testified.*

The substance of the court's "over-breadth" findings was independently erroneous. The court identified as "over-broad" Universal's claim of the right to use a "visual image" of King Kong in licensing. *E.g.*, 615 F. Supp. at 851. The "over-breadth" holdings reflected the court's view that RKO's derivative copyright rights denied Universal *any* "visual image" rights for trademark purposes. As has been fully set forth above, it is inherently absurd to say that a misappropriator's rights can defeat those of its victim. As has also been set forth above, the whole issue was treated by RKO itself as a matter of

* The obvious inconsistency between the "no rights" view of the case and the "over-breadth" view of the case is but one manifestation of the fundamental confusion about the Cooper Judgment into which Nintendo led the District Court. This confusion is evident in the District Court's recent opinion in the *Coleco* case denying Coleco's summary judgment motion. See p. 21, n.**, *supra*. The District Court there held that Universal was *not* after all "completely without rights in King Kong"; the Court said that "Universal did purchase a portion of the book rights from the original story of King Kong by virtue of its agreement with [Major] Richard Cooper." *Coleco Indus., Inc. v. Universal City Studios, Inc.*, *supra*, slip op. at 18.

But if one thing is not disputed by anybody, it is that not only Major Cooper, but his father, *retained* all "worldwide publishing rights" going all the way back to 1932. Indeed, the District Court held in its 1983 Decision that it was in part *because* Cooper retained the publishing rights that the Cooper Judgment deprived King Kong of "secondary meaning" as a matter of law. See 578 F. Supp. at 923-25.

"little disputes" (A695-97), which never remotely approached litigation dimensions (A683). *See* pp. 16 n.*, 30-31, *supra*.

Compounding these fundamental errors, the court simply misread DiMuro's memos about Universal's "King Kong" movie and its tour attraction. As set forth above, *see* pp. 14-16, the memos have nothing to do with merchandising or licensing or trademark matters: they relate to the distinct issue of RKO's (and DiLaurentiis') *copyright* rights as these may bear on Universal's movie (and its tour attraction). They do not even mention the Cooper Judgment, or Cooper's and RKO's rights under that Judgment. Yet, manifestly the Universal/RKO agreement—on which DiMuro's advice was based—did not *limit* the terms, or scope, of the Cooper Judgment, as the 1985 Decision implicitly assumes. To the contrary, that agreement *enlarged* Universal's rights, and *restricted* RKO's. *See* pp. 9-10, *supra*.

The lower court nonetheless read DiMuro's memos as proving that "Universal" supposedly "knew" that it could not make any use of a King Kong "visual image" in trademark licensing, and therefore supposedly "knew" that its claim of trademark rights was invalid and improper. It was also those readings which led the court to believe that Universal's decision to consult its regular litigation counsel, Kroft, rather than DiMuro, with respect to the potential trademark litigation against "Donkey Kong" reflected a conscious decision to avoid DiMuro.* These readings were clearly erroneous.

3. The Alleged Sifuentes/DiMuro View Did Not Have to be Disclosed to Kroft.

Finally, even if one assumes, *arguendo*, that Sifuentes told the truth, and DiMuro a lie, or that the DiMuro memos reflected DiMuro's view that the Cooper Judgment failed to "transfer . . . RKO's trademark rights," the lower court committed clear legal error in concluding that "Universal" as

* DiMuro himself testified that, "certainly," Kroft was "more knowledgeable" about King Kong than he. (A143)

a corporation was therefore not entitled to rely on Kroft's advice.

The only way that the alleged DiMuro/Sifuentes view could impair Universal's ability to rely on Kroft's advice is if such view was a required disclosure by a client to his counsel. It was not.

The defense of reliance on counsel requires that the client inform his attorney of "relevant facts." *Restatement (Second) of Torts* § 675 and Comment (g). In *T.W. Warner Co. v. Andrews*, 73 F.2d 287, 292 (2d Cir. 1934) (L. Hand, J.), *cert. denied*, 294 U.S. 717 (1935), this Court held that a client need not disclose factors that might impugn his motives in seeking advice on whether to bring an action. Judge Hand stated that the client's "motives had nothing whatever to do with his probable chance of success." 73 F.2d at 290. Neither Universal's alleged improper motives, nor the alleged legal opinions of DiMuro and Sifuentes which supposedly "proved" those motives, had to be disclosed to Kroft.

Moreover, there is no basis to believe that Kroft's opinion would have changed one whit had he heard of the alleged Sifuentes/DiMuro view. If the legal views of an employee could somehow be deemed a "fact" rather than an "opinion," such "fact" would be immaterial. "The mere opinion of some other attorney, regarding [the merits of the action] is not material" in assessing the adequacy of a client's disclosure for probable cause purposes. *Moore v. Durrer*, 127 Cal. App. 759, 767, 16 P.2d 676, 680 (Cal. Ct. App. 1932).

* * *

Universal was entitled to rely on the advice of its long-term counsel in an area of his special competence. The decision below to the contrary should be reversed.

POINT III

NINTENDO IS NOT ENTITLED TO PUNITIVE DAMAGES OR ATTORNEYS' FEES.

As set forth above, it is highly dubious that the 1983 Letters caused Nintendo *any* actual damage. But even if Nintendo's tortious interference theory entitled it to the \$94,000-odd it received in compensatory damages, it was clear legal error for the District Court to go further and make the extraordinary award of \$1,365,043.98 in punitive damages and attorneys' fees.

A. Punitive Damages.

The punitive damages award—representing Nintendo's claimed fees and non-recoverable costs in defending Universal's Lanham Act complaint—cannot withstand scrutiny. *All* of Nintendo's claims for punitive damages, on the dismissed counterclaims and on the one claim the court sustained, were without merit.

In New York, the purpose of an award of punitive damages is quasi-criminal, to *punish* conduct that manifests "a criminal indifference to civil obligations." *Walker v. Sheldon*, 10 N.Y.2d 401, 405, 223 N.Y.S.2d 488, 491 (1961) (which, although the leading case on punitive damages in New York, is not cited by the District Court); *Durham Industries, Inc. v. North River Insurance Co.*, 673 F.2d 37, 41 (2d Cir.), *cert. denied*, 459 U.S. 827 (1982) (noting New York's strong policy against punitive damages where only private economic wrongs are involved).

Even if New York recognizes a cause of action for tortious interference on the facts here presented, *but see Curiano v. Suozzi, supra*, it is inconceivable that it would allow an award of punitive damages. New York's resolute commitment to "open access to the courts for all parties without fear of reprisal," *Curiano v. Suozzi, supra*, absolutely forbids punitive "reprisal" such as the court below permitted. Even if actual out-of-pocket losses can be compensated on a tortious interference theory, neither New York nor any other jurisdiction would regard the assertion of rights, or the bringing of

suit, as manifesting "a criminal indifference to civil obligations," *Walker v. Sheldon, supra*, 10 N.Y.2d at 405, 223 N.Y.S.2d at 491, particularly "given the complexity of the factual situation" involved here. *Big Seven Music Corp. v. Lennon*, 554 F.2d 504, 513-14 (2d Cir. 1977).*

Whether or not the Cooper Judgment is accepted at face value, whether or not New York law recognizes the institution of civil litigation as "tortious interference," whether or not Universal's reliance on counsel constitutes a complete defense against a tortious interference claim, and whether or not the Sifuentes deposition testimony is accepted, this is not a case where anything like a right to punitive damages was established under New York law.

B. Attorneys' Fees.

The District Court had absolutely no legal basis for awarding attorneys' fees.

1. Rule 11.

The District Court recognized that, since the complaint was filed in June, 1982—prior to the August, 1983, amendments to Rule 11—pre-amendment law applies. 615 F. Supp. at 864. Rule 11 in its pre-amendment form addresses subjectively improper conduct by counsel supplying a Rule 11 certification on the pleading, as this Court has repeatedly held. *See, e.g., Eastway Construction Corp. v. City of New York*, 762 F.2d 243, 253 (2d Cir. 1985); *Nemeroff v. Abelson*, 620 F.2d 339, 350 (2d Cir. 1980). Where such counsel is not specifically found to have been in subjective bad faith in signing the pleading, Rule 11 sanctions are not permissible. *E.g., Tedeschi v. Smith Barney, Harris Upham & Co.*, 579 F. Supp. 657, 661 (S.D.N.Y. 1984), *aff'd*, 757 F.2d 465 (2d Cir.) (per curiam), *cert. denied*, 106 S. Ct. 147 (1985).

* With respect to Nintendo's claim for out-of-pocket damages resulting from the 1983 Letters, Nintendo's own evidence showed that it was highly dubious that those letters caused its licensees' non-performance. The record was quite clear that the licensees used the letter as an excuse for commercial failure. *See p. 35 n.*, supra.*

The District Court here made no finding that Townley & Updike was guilty of any misconduct, much less subjective bad faith. It could not possibly have done so. As the court recognized in its repeated *praise* of trial counsel, Douglas C. Fairhurst of Townley & Updike—who supplied the Rule 11 certification and sent out the 1983 Letters—his conduct, and his firm's, were in all respects impeccably professional and responsible. *E.g.*, 615-F. Supp. at 841; A250, 370.

Townley & Updike deserves no criticism of any kind. Insofar as the complaint was allegedly “over-broad,” that conclusion is based upon patent misreadings of DiMuro's memos and ultimately upon the District Court's erroneous treatment of the Cooper Judgment. In any case, lawyers are entitled to frame pleadings in their best professional judgment without fear of massive sanctions. *See Eastway Construction Corp. v. City of New York, supra*, 762 F.2d at 254. Insofar as the complaint failed to reflect the “facts” disclosed in Sifuentes' deposition, that testimony—whatever its value for any other purpose—cannot conceivably meet this Court's repeated requirements that there be “clear evidence” to support a fee award. *See, e.g., Puritan Insurance Co. v. Eagle S.S. Co.*, 779 F.2d 866, 873 (2d Cir. 1985).*

Moreover, the District Court's Rule 11 award was improperly based in part on Universal's supposed *general* view of “corporate litigation as a ‘profit center.’ ” *See* p. 20 n.**, *supra*; 615 F. Supp. at 864-65. In *Dow Chemical Pacific Ltd. v. Rascator Maritime S.A.*, No. 85-7068 (2d Cir. Jan. 21, 1986), this Court specifically warned that violations of court orders in *other* litigations must be dealt with in the context of such other litigations, and that they should not be taken into account in awarding attorneys' fees in a case in which there was no such violation. Slip op. at 7102-03. In the instant case

* Under old Rule 11, which did not even mention attorneys' fees, it is unclear that such an award would be appropriate under *any* circumstances. *See United States v. Carley*, No. 85-6099, slip op. at 1592-93 (2d Cir. Feb. 13, 1986); *Nemeroff v. Abelson, supra*, 620 F.2d at 350. The District Court did not even consider the issue, apparently confusing the pre-amendment and post-amendment versions of the Rule.

no misconduct in other cases was alleged or shown. This case is therefore *a fortiori* of *Dow Chemical*: mere "litigiousness" (and even "profitable" litigiousness) cannot be a permissible factor.

2. Section 1117 of the Lanham Act.

Nor was there any basis for attorneys' fees under the Lanham Act, 15 U.S.C. § 1117, which permits an award of "reasonable" fees in "exceptional" cases.

Universal's decision to bring suit was not made in bad faith, *see pp. 35-44, supra*, nor was its case otherwise "exceptional." Indeed, the District Court's 1983 Decision recognized the Lanham Act principle that trademark rights are "fragile," *i.e.*, easily lost if *not* diligently protected. 578 F. Supp. at 923. *Cf. Jockey International, Inc. v. Burkard*, 185 U.S.P.Q. 201, 207 (S.D. Cal. 1975); A644, 362-63. The court's 1985 Decision illustrated this principle in *criticizing* Universal for *not* pursuing other alleged infringers, *see, e.g.*, 615 F. Supp. at 845, 862, although the record was clear that "Universal" was unaware of them and that they were "small fry" compared to Nintendo and its licensees. A596, 604; *see also p. 13 n.**, *supra*.

The court then turned around and awarded Lanham Act attorneys' fees when, after consulting its regular litigation counsel, Universal *did* pursue *important* claims of infringement. It did so notwithstanding that Nintendo would not even warrant or represent to its licensees the validity of its own trademark. *See pp. 18-19, 21 n.**, *supra*. It did so because of the alleged defects in *Cooper's* rights under the *Cooper* Judgment—a subject which does not implicate the policies of the Lanham Act one iota.*

* So far as "likelihood of confusion" is concerned, there is no basis for the lower court's holding that Universal's position on this Lanham Act issue was "entirely without color." Indeed, on the prior appeal—where the Lanham Act issues were squarely before this Court—Nintendo itself did not claim that Universal's positions were "entirely without color." As Nintendo well knew, the record was clear that Nintendo's employees had chosen to use the "Kong" name, the gorilla character and the King Kong story for the precise purpose of evoking King Kong. A808-18, 672-74; *see also* A656-57.

Further, to "support" its award of Lanham Act fees, the court chiefly relied on an earlier case awarding fees where a Lanham Act suit was merely a "competitive ploy." Yet the court never took account of the fact that, in this case, it was simultaneously *rejecting* virtually all of Nintendo's "tortious interference" counterclaims which had alleged precisely that.*

* * *

This Court has made express that a fee award requires findings that the challenged claims were "entirely without color" and "asserted for reasons of harassment or delay or for other improper purposes." See, e.g., *Puritan Insurance Co. v. Eagle S.S. Co.*, *supra*, 779 F.2d at 873, and cases cited herein; see also *Dow Chemical Pacific Ltd. v. Rascator Maritime S.A.*, *supra*, slip op. at 7100; *Colombrito v. Kelly*, 764 F.2d 122, 133 (2d Cir. 1985). These standards were not met here.**

The fee award was error as a matter of law.

* The earlier case is *Mennen Co. v. Gillette Co.*, 565 F. Supp. 648, 657 (S.D.N.Y. 1983), *aff'd mem.*, 742 F.2d 1437 (2d Cir. 1984). *Viola Sportswear, Inc. v. Mimun*, 574 F. Supp. 619 (E.D.N.Y. 1983), also cited by the court, was a case where litigation was brought over a single \$10 pair of blue jeans, under a complaint which "charge[d] the defendants with a trademark conspiracy that was nationwide in scope, based entirely on that one pair of jeans"; it also involved a fee award independently justifiable under amended Rule 11 and 28 U.S.C. § 1927, neither of which is involved here. The only other case cited by the court, *Sanford Research Co. v. Eberhard Faber Pen & Pencil Co.*, 379 F.2d 512 (7th Cir. 1967), reversed an award of fees as "manifest error." *Id.* at 517.

** An award of attorneys' fees must meet the additional requirement of being "reasonable." 15 U.S.C. § 1117. Apart from the fact that the District Court had no warrant to impose *any* fees, Nintendo offered not a shred of evidence that \$1,142,545.70 in fees, and \$228,752.68 in non-taxable costs, were "reasonable." The *only* evidence Nintendo offered was one question and answer as to the *amount* of the claimed fees and costs. (A266-67) It should be stressed that these fees and costs were purportedly incurred in defending Universal's main complaint, which was never even tried.

POINT IV

THE DISTRICT COURT ERRED IN HOLDING UNIVERSAL LIABLE FOR VICARIOUS COPYRIGHT INFRINGEMENT. ITS AWARD OF COPYRIGHT ATTORNEYS' FEES WAS IN ANY EVENT IMPROPER.

In addition to holding Universal liable in tort for litigation misconduct, the District Court found against Universal on one count of "substantive" misconduct, viz., "vicarious copyright infringement" in licensing the Tiger home video game. See p. 12, *supra*. The court held that the Tiger game infringed Nintendo's copyright in its "Donkey Kong" arcade game, and awarded Nintendo Universal's profits on the Tiger game, \$56,689.41. 615 F. Supp. at 860. The court went on to award copyright attorneys' fees in an amount half again as large—\$83,525.05. Both holdings constitute error.

A. The Purported Copyright Infringement.

The District Court misapplied applicable copyright principles in sustaining Nintendo's vicarious infringement counterclaim.*

The court recognized the principles involved. In its lengthy general discussion, 615 F. Supp. at 857-59, it stated that it had to determine "whether the games are substantially similar in *protected expression*, for the court must '*distill the protected parts of a work from the unprotected*,' *Warner Bros. Inc. v. American Broadcasting, Etc.*, 530 F. Supp. 1187, 1190 (S.D.N.Y. 1982), *aff'd*, 720 F.2d 231, 222 U.S.P.Q. 101 (2d Cir. 1983) in order to determine the impropriety of similarities among products." 615 F. Supp. at 858 (emphasis added). The court also stated, correctly, that:

* Nintendo's claim of infringement related *solely* to its own *arcade* game; as the District Court noted, Nintendo made no claim with respect to the versions for home use made and marketed by Coleco, and did not even introduce a copyright registration for Coleco's games. 615 F. Supp. at 857 n.1.

Because copyright protection extends only to the expression of an idea, not to the idea itself, the general "game concepts" underlying Donkey Kong are not protectible. Neither the ramps and ladders motif nor the gorilla/female captive scenario is independently protectible.

—615 F. Supp. at 858 (citations omitted).

It was in the single paragraph where it purported to apply these principles to the case before it, 615 F. Supp. at 859-60, that the District Court erred. First, the court entirely failed to specify what about Nintendo's arcade game represented protectible expression as distinguished from the underlying and unprotectible idea. Instead, the court based its holding on the overall "tone and feel of Donkey Kong," and the "similarity in playing environment encountered by a customer." *Id.* at 859. This is not surprising in view of Nintendo's failure to define which particular elements of its game *it* felt were protectible.*

If the court was saying that the Nintendo characters were protectible, and were copied by Tiger—as in *Atari, Inc. v. North American Philips Consumer Electronics Corp.*, 672 F.2d 607 (7th Cir.), *cert. denied*, 459 U.S. 880 (1982)—this was erroneous. First, the *Atari* case involved protection of the "wholly fanciful" "Pac-Man" characters. This case does *not* involve "wholly fanciful" characters: the "cast" of the Tiger and Nintendo games involves people and gorillas, not voracious "gobblers" and fanciful "ghost monsters." See 672 F.2d at 617-18.

Moreover, the Tiger King Kong figure is a stylized rendition of a gorilla, bearing no resemblance (aside from the purely generic) to the somewhat realistic Nintendo gorilla. *Compare*

* In response to a Universal interrogatory designed to elicit a specification of what was allegedly protectible, Nintendo cavalierly replied: "[Universal] can view the [infringing] audiovisual material itself by operating the [Tiger] game." (A919) The opinion testimony which Nintendo elicited from its only copyright witness—its "technical services manager," whose job is to oversee "the repair of printed circuit boards and . . . the parts department"—also failed to distinguish between protectible and non-protectible elements. Indeed, this "expert" had never even played one of the allegedly infringing Tiger games. (A303, 305-08)

A619-20 (game boards from Tiger game) with A617 (game board from the Donkey Kong arcade game). The Tiger female figure is similarly abstract, and lacks the realistic pigtail that characterizes the "Donkey Kong" heroine. The Tiger "hero", also a stylized figure, is a fireman. The Donkey Kong hero-figure, "Mario," is a carpenter with a distinctive handlebar mustache.*

Not only the characters but the game play differs—assuming, *arguendo*, that game play is a proper subject of copyright.** The "Donkey Kong" gorilla "bowls" barrels down inclined girders toward the carpenter hero, while in the Tiger games the fireman-hero must evade bombs. "Hammers" are available to the "Donkey Kong" carpenter with which he can ward off the barrels; no such element appears in the Tiger game, where the hero is not a carpenter. In "Donkey Kong," some of the ladders connecting the different levels (which are composed of construction girders) are broken, while in the Tiger games they are not. Any similarities are non-protectible *scenes-a-faire*. Compare, e.g., *Williams Electronics, Inc. v. Bally Manufacturing Corp.*, 568 F. Supp. 1274 (N.D. Ill. 1983); *Atari, Inc. v. Amusement World, Inc.*, 547 F. Supp. 222, 229-30 (D. Md. 1981).

The District Court's holding that the Tiger and Donkey Kong games are substantially similar was based on misapplication of basic copyright principles.***

* The District Court's description of Mario as "a carpenter hero (with or without a fire hat)," 615 F. Supp. at 859, is somewhat mystifying. It is hard to understand what a "carpenter . . . with . . . a fire hat" is supposed to mean. The rendition of the "hero" figure in the Tiger game as a fireman was intended to, and does, distinguish the Tiger hero from the "Donkey Kong" carpenter.

** But see, e.g. *Atari, supra*, 672 F.2d at 617.

*** The District Court mistakenly states that the *music* of the Tiger games is "nearly identical" to that of Nintendo's arcade game. 615 F. Supp. at 859.

B. The Attorneys' Fee Award.

In any event, the award of \$83,525.05 in attorneys' fees under § 505 of the Copyright Act must fall.

In this Circuit, "the practice of awarding such fees 'has been sparingly used and the amounts awarded modest.' " *MCA, Inc. v. Wilson*, 677 F.2d 180, 187 (2d Cir. 1981), quoting *Orgel v. Clark Boardman Co.*, 301 F.2d 119, 122 (2d Cir.), cert. denied, 371 U.S. 817 (1962). An award of attorneys' fees for copyright infringement "is considered in the nature of a penalty," *Breffort v. I Had a Ball Co.*, 271 F. Supp. 623, 627 (S.D.N.Y. 1967), and is allowed " 'only where it appears that the defendant has resisted a valid claim with a defense that is so lacking in merit as to present no arguable question of law or fact, or where it appears that the defense was designed to annoy or harass the plaintiff,' " *Encyclopaedia Britannica Educational Corp. v. Crooks*, 558 F. Supp. 1247, 1252 (W.D.N.Y. 1983), quoting *Morser v. Bengor Products Co.*, 283 F. Supp. 926, 929 (S.D.N.Y. 1968).

The District Court ignored these principles, and cited none of the foregoing authorities. The only authority it cited was a dictum in *Diamond v. Am-Law Publishing Corp.*, 745 F.2d 142, 148 (2d Cir. 1984)—a case which involved whether fees should be granted to a prevailing *defendant*—to the effect that "fees are generally awarded to prevailing plaintiffs."*

Accordingly, the lower court erroneously failed to consider under the proper legal test whether copyright fees were warranted. They were not. The record showed clearly that senior Universal officials made a good faith effort to assure that the Tiger game did not infringe any "Donkey Kong" copyright.

Thus, when Adler's and Sifuentes' blunders in the Tiger matter came to light, see p. 13, *supra*, MCA's Robert Hadl required Tiger to make changes to the Tiger game to remove

* The only cases which *Diamond* cited to support this dictum correctly state this Court's rule that "an award of [copyright] fees is considered in the nature of a penalty" and that § 505 has been " 'sparingly used and the amounts awarded modest.' " *Breffort*, *supra*; *Davis v. E.I. DuPont de Nemours & Co.*, 257 F. Supp. 729, 731 (S.D.N.Y. 1966).

any question of copyright infringement. Moreover, Hadl discussed these changes with Coleco, Nintendo's principal United States licensee and its exclusive licensee for home video games like Tiger's. He told Coleco he would have Tiger make whatever changes Coleco wanted. Coleco consulted with Nintendo, and only after Coleco "signed off" did Hadl renew a revised Tiger license. (A715-16, 641-43, 173-75, 186-89, 225-28, 252-56) This is obviously why Nintendo never even claimed that the Tiger games infringed on Coleco's versions of "Donkey Kong," with which they directly competed. See 615 F. Supp. at 857 n.1.*

Although these undisputed facts demonstrate Universal's good faith in connection with the Tiger game, they go entirely unmentioned by the District Court. So far as the \$83,525.06 fee award is concerned, they should have been dispositive.**

The "logic" of the court's fee award is really that Hadl should have abandoned the Tiger license altogether, that Universal should have simply quit the field, and that anything less constituted "bad faith." This was error.

What this fee award means is that Hadl, like everyone else at Universal, was bound at his peril to anticipate that the court below would invalidate the Cooper Judgment, would treat Universal as in effect a total stranger to the King Kong property, would brand the assertion of rights in King Kong tortious, would do so on the basis that the retained rights of

* The District Court based the copyright fee award in part on what it called "Universal's use of Tiger as a means of strengthening its position in negotiations with Coleco" 615 F. Supp. at 864. There is absolutely no basis for this statement, even if it were a permissible factor under § 505. As set forth in the text, Universal *refused* to "clear" the Tiger game until Coleco expressly permitted it to do so. Coleco in turn consulted with Nintendo. Universal therefore in effect allowed Coleco to "use . . . Tiger" to "strengthen" Coleco's "position" in the parties' "negotiations."

** The District Court here did not even purport to assure that the fee award was "modest." Compare, e.g., *MCA, Inc. v. Wilson*, *supra*, where, on a damage award of some \$240,000, this Court reduced the fee award from \$20,000 to \$10,000, i.e., to 4% of the compensatory damages award. Contrast the decision below where the fees were 150% of the compensatory damages. Universal specifically challenged the fee award on this basis, but the District Court made no change. (A57)

RKO, the misappropriator, made Major Cooper's rights worthless, would hold any lawyer who did not anticipate all of this guilty of malpractice or worse, and would decide that out of all the lawyers involved—Townley & Updike, Mr. Kroft, Mr. Hadl, Mr. DiMuro and Ms. Sifuentes—only Ms. Sifuentes was not guilty of professional misconduct and/or perjury and/or bad faith.

Conclusion

The decision below is not just clear error. It is unjust. It shows disregard for the orders and judgments of a co-ordinate federal court, for the diligence and good faith of honorable lawyers, and for the rights of business people to rely on their lawyers.

It should be reversed. The 1983 Decision that no trademark rights were "transferred" to Major Cooper and that King Kong lacks secondary meaning as a matter of law should be vacated. The 1985 Decision insofar as it sustained Nintendo's counterclaims should likewise be vacated, and the counterclaims dismissed.

Dated: New York, New York
March 18, 1986

Respectfully submitted,

WACHTELL, LIPTON, ROSEN
& KATZ

Of Counsel:

MICHAEL W. SCHWARTZ
DAVID GRUENSTEIN
CHRISTOPHER PAIK*

By /s/ MICHAEL W. SCHWARTZ

A Member of the Firm
299 Park Avenue
New York, New York 10171
(212) 371-9200

*Attorneys for Appellant-Cross-
Appellee Universal City
Studios, Inc.*

* Awaiting admission to the bar.

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